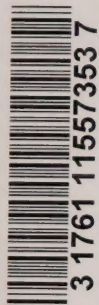


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# Incentives and Disincentives to Work

A Report by the  
National Council of Welfare

Autumn 1993

Canada



# **INCENTIVES AND DISINCENTIVES TO WORK**

**A Report by the  
National Council of Welfare**

**Autumn 1993**



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## INTRODUCTION

Incentives and Disincentives to Work is an attempt by the National Council of Welfare to shed light on issues that seem destined to be at the centre of the public policy stage for the rest of the decade.

The core of the report is an analysis of the labour market realities facing recipients of welfare and unemployment insurance and detailed calculations of the financial incentives and disincentives to work for recipients of both programs. The focus is on welfare and unemployment insurance because those are the two main alternatives to paid jobs for people of working age.

The report also discusses other incentives or disincentives that are built into provincial welfare systems and reviews some of the programs that were aimed specifically at helping welfare recipients into paying jobs.

Much has been written about economic restructuring, the globalization of the Canadian economy and the adverse effects on the job market that result from these trends. Unemployment rates have been persistently high, and many of the new jobs created in recent years have failed to provide reasonable wages or reasonable hopes for job security. Many of the people who had to fall back on welfare or unemployment insurance are victims of these realities.

Two premises underlie the approach to incentives and disincentives taken in this report. The first premise is that poor people respond to incentives and disincentives to work as well as or better than anyone else. The second is that our existing social safety nets have worked surprisingly well at a time when they are under intense pressure.

The National Council of Welfare has tried over the years with only limited success to dispel stereotypes about poor people that stand in the way of any rational analysis of income security. In reality, poverty is often the result of bad luck: a person loses a job, a second wage-earner in a family leaves or dies, or a person is kept out of the labour force by a severe illness or disability. Still, the myth persists that poverty is primarily due to laziness or incompetence and therefore different standards of behaviour should apply to recipients of social programs.

The classic example of this double standard is the high "tax-back rates" that exist in welfare programs in every single province and territory. The term tax-back rate refers to the amount of welfare that recipients lose when they earn wages or receive other types of income. If a recipient earns \$100 from part-time work and loses \$75 in welfare as a result, the tax-back rate is 75 percent.<sup>1</sup>

Tax-back rates of 75 percent or more are commonplace in welfare programs, and marginal rates can actually exceed 100 percent. That happens when workers lose the last of their welfare cheques because of additional earnings and lose their government subsidies for dental care and prescription drugs at the same time.

In contrast, the top marginal federal-provincial income tax rate is about 50 percent when surtaxes are included.

This report takes a common-sense approach to incentives and disincentives to work for recipients of welfare and unemployment insurance: the larger the incentive, the more likely people are to respond. A steady job with a salary of \$25,000 a year and good fringe benefits is obviously more of an incentive than a seasonal job at the minimum wage with no benefits. A job that holds out the promise of promotions and higher pay is obviously more of an incentive than a dead-end job.

Poor people probably respond to incentives to work better than people with above-average incomes. A person with a decent income often has the opportunity to decide whether to work more hours or enjoy more leisure time. A person struggling to make ends meet rarely has that luxury.

The second premise in this report is that welfare and unemployment insurance, despite their many shortcomings, have succeeded in providing temporary income support to many millions of Canadians over the years. The cost has been higher than anticipated a generation ago, but the needs of families and individuals have also been greater than expected.

The stark reality is that there is no acceptable substitute for income security programs of last resort. Take away a social safety net like welfare and the outcome is human suffering



and destitution. Canadians are a compassionate people and would not tolerate an increase in hunger and homelessness as a deliberate act of public policy.

In this context, it is disturbing to hear growing criticism of welfare and unemployment insurance as ineffectual and outdated. This is reflected in the current fashion of talking about these programs as "passive" rather than "active."

Using terms like "active" and "passive" introduces a value judgment that tends to predetermine the outcome of the debate. Obviously, no one would support a social program that is "passive" if the alternative is a social program that is "active." But what do these terms really mean?

Social programs are inherently neither active nor passive. What matters is how they compare to the alternatives. Take, for example, a welfare program that pays a single employable person \$5,000 a year. If the alternative is a full-time job that pays \$20,000 a year, there is a clear incentive to leave welfare and accept the job. If the alternative is a part-time or seasonal job that pays \$2,000 a year, there is a clear disincentive. In either case, the amount available to those who choose welfare remains the same - whether the cheque is written passively or actively.

None of this is an argument for the status quo. The National Council of Welfare has been a leading proponent of welfare reform and believes the current welfare system can be made much better. Governments should also explore new programs, such as wage supplements or tax credits for the working poor. When all is said and done, however, programs such as welfare and unemployment insurance will continue to be vital features of the social policy landscape.

The last chapter of this report mentions some general concerns and areas for future research. Because the problems are complex, the solutions are necessarily complex. Some of the concerns are with specific features of welfare or unemployment insurance. Others lie within the broader domains of labour market or economic policy. Some of the problems lend themselves to relatively easy solutions, while a few may confound governments altogether.

The federal government has been working for months on a white paper on income security reform, and many provincial governments have been active in the same field. We

expect to see new initiatives proposed by governments to address some of the issues discussed in this report. There is almost certain to be a new round of federal-provincial negotiations in the foreseeable future to reform social programs and the way they are financed.

As governments focus their efforts and as specific proposals are developed, the National Council of Welfare hopes to be in a position to offer more detailed advice.

Some of the information in this report arises out of previous reports, notably Welfare Incomes 1992, Welfare Reform, and Welfare in Canada: The Tangled Safety Net. These reports would not have been possible without the co-operation of numerous federal and provincial welfare officials who took the time to read draft texts, verify factual material and offer comments and insights from their own perspectives. We are also grateful to Statistics Canada for the extensive unpublished data they provided from the Labour Market Activity Survey.



## **A LABOUR FORCE IN TRANSITION**

Before we look at specific incentives and disincentives to work, we need to know more about the working-age population. Who are the persons who make up the labour force? Are they normally employed or unemployed? Who are the persons who rely on welfare or unemployment insurance? And to what extent do people move back and forth between paying jobs and our social safety nets?

The best answers to these questions come from the Labour Market Activity Survey of Statistics Canada. Unlike many other studies which look at the labour force at a given point in time, this particular survey followed the same group of people for a period of years to see how their circumstances changed.

Work on the survey results for 1986 and 1987 was done by David Ross and Richard Shillington and published by Statistics Canada under the title Flux: Two Years in the Life of the Canadian Labour Market. The National Council of Welfare arranged to get similar, but more recent data for the years 1988 through 1990, along with additional unpublished information on the people surveyed by household type.

In the text that follows, working-age population refers to everyone aged 16 through 64. The labour force consists of people who are either employed or unemployed. The category employed is made up largely of people who work for wages or salaries, but it also includes people who are self-employed. Unemployed means a person is not employed, but is looking for work or available for work. Persons who are neither employed nor unemployed are considered to be outside the labour force.<sup>2</sup>

The most striking finding of the Labour Market Activity Survey was the extent of the changes in labour force status among people of working age. Graph A on the next page gives estimates for the period from 1988 through 1990.

\* Of the total working-age population of 17 million people aged 16 through 64, 8.3 million people or close to half were "in transition." That means that they moved in or out of the labour force or in or out of employment at least once during the three-year period. The



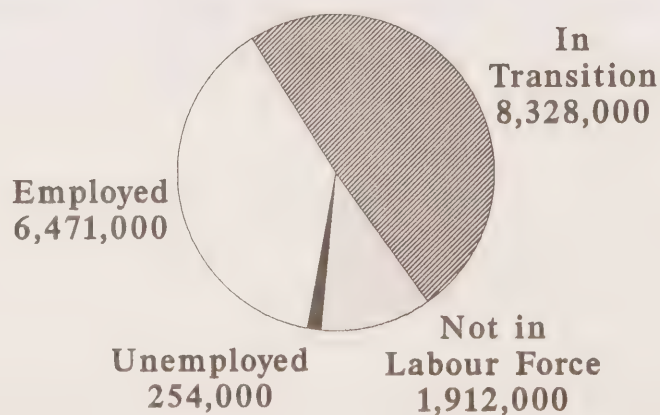
category "in transition" includes people who entered the labour force for the first time in 1988, 1989 or 1990 and people who left the labour force because of early retirement. It also includes the many workers who experienced temporary periods of unemployment sometime during the three years.

\* About 6.5 million people or 38 percent of the total were employed throughout the period.

\* Only 254,000 people or 1.5 percent of working-age people were unemployed for the entire three years.

\* The remaining 1.9 million people or 11 percent of the total were not in the labour force at any time. This group included older women who had been working at home most of their adult lives, younger women with children still at home, people with chronic and severe illnesses or disabilities, and full-time students without any work experience.

### **Labour Force Status of People Aged 16 through 64 From 1988 through 1990**



**Graph A**

People who were not employed for the entire three-year period had to rely on income from other sources to make ends meet. They dipped into their savings, relied on other family members or made use of government programs, just to name a few of the possibilities. Two common alternatives to paid work were welfare and unemployment insurance.

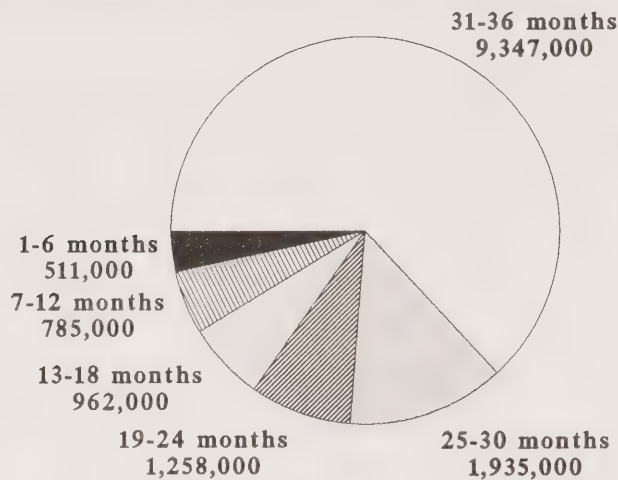
The Labour Market Activity Survey estimates that more than 1.1 million people aged 16 through 64, or nearly seven percent of the entire working-age population, were on welfare sometime in 1988, 1989 or 1990. Nearly 4.1 million people, or about 24 percent of the working-age population, received unemployment insurance benefits, including maternity or sickness benefits, sometime during the three years. An estimated 369,000 people received both welfare and unemployment insurance. Presumably, most of the people in this group ended up on welfare after they exhausted their UI benefits.

Another way to look at the survey data is to focus on people within the working-age population who had paying jobs for at least part of the three-year period. This is done by adding together the categories "employed" and "in transition" and breaking down the totals according to the number of months of work during 1988, 1989 and 1990. The results are shown in Graph B on the next page.

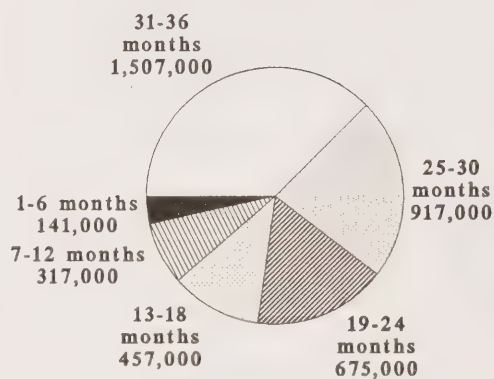
Overall, 14.8 million people or 87 percent of the working-age population of 17 million had paying jobs for all or part of the three-year period. The "pie" graph in the top half of the page gives the breakdown of workers by the number of months of work. Sixty-three percent of the 14.8 million workers had paid jobs for 31 months or more, while the percentage of people who worked only now and then was relatively small.

The work experience of the more than four million people who received unemployment insurance, as shown in the lower left portion of the graph, was somewhat different, but not radically different.<sup>3</sup> Sixty percent of them had paying jobs for 25 months or more during the period, and the percentage of workers with only a few months of work was quite small. One reason for the overall similarity between the pies for workers generally and workers who had received unemployment insurance at some point is the requirements of the UI program. People had to work a number of weeks to qualify for benefits and the maximum period for benefits was 50 weeks. Presumably, most of the people represented in the UI pie claimed benefits for varying periods of time up to the maximum and had paying jobs for the rest of the three years.

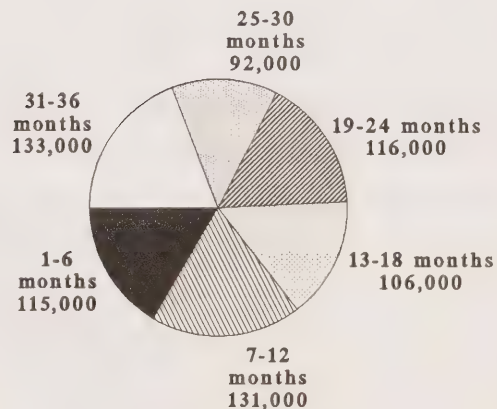
# Months of Work By People Who Had Paid Jobs, 1988-1990



**14.8 Million People in  
Working-Age Population**



**4 Million  
UI Recipients**



**694,000 Welfare  
Recipients**

**Graph B**



The situation among welfare recipients was radically different, as shown in the pie at the lower right of the graph. A total of 694,000 people, or 61 percent of the 1.1 million welfare recipients of working age, were employed at some time in 1988, 1989 or 1990, but their work patterns were much more erratic. Unlike the other two pies, the pie for welfare recipients with paying jobs is divided up into six slices more or less equal in size. The group that worked between one and six months was relatively large compared to UI recipients or the population at large, and the group that worked 31 to 36 months was relatively small.

Table 1 on the next page focuses on the groups that fell back on welfare or unemployment insurance or both at any time during 1988, 1989 or 1990 and breaks down these figures by province.<sup>4</sup> The table gives the estimated number of people in each category and the number expressed as a percentage of the province's working-age population. For example, there were about 37,000 people aged 16 through 64 in Newfoundland who received welfare sometime in the three-year period. The 37,000 people represented ten percent of the province's population of 365,000 aged 16 through 64.

The data in Table 1, especially the data on unemployment insurance recipients, show that the real risk of unemployment is much higher than suggested by the official unemployment rates. In Ontario, for example, 18.3 percent of the working-age population received unemployment insurance benefits sometime in 1988, 1989 or 1990. The month-to-month unemployment rate during that same period was 5.5 percent on average. In other words, the risk of being without a job in any particular month was relatively low, but the risk of being without a job sometime during the three years was relatively high.

The table also shows an overlap between welfare and unemployment insurance in all provinces that added up to 369,000 people for the country as a whole. The 369,000 were only 2.2 percent of all working-age people in Canada. However, they represented 32 percent of all welfare recipients aged 16 through 64 and nine percent of all UI recipients. Recent changes in unemployment insurance that went into effect in April 1993 made it much more difficult to qualify for regular UI benefits. It is not yet known how these changes will affect the size of the overlap with welfare.

**TABLE 1**

**RECIPIENTS OF WELFARE AND UNEMPLOYMENT INSURANCE  
DURING THE PERIOD 1988-1990, BY PROVINCE**

Province	Total Population Aged 16-64	Received Welfare		Received Unemployment Insurance		Received Both	
		Estimated Number	As % of Population Aged 16-64	Estimated Number	As % of Population Aged 16-64	Estimated Number	As % of Population Aged 16-64
Newfoundland	365,000	37,000	10.0%	171,000	47.0%	19,000	5.2%
Prince Edward Island	80,000	5,000	6.0%	32,000	40.8%	2,000	2.7%
Nova Scotia	559,000	34,000	6.0%	171,000	30.6%	11,000	1.9%
New Brunswick	454,000	44,000	9.6%	162,000	35.7%	13,000	2.8%
Quebec	4,465,000	416,000	9.3%	1,278,000	28.6%	115,000	2.6%
Ontario	6,282,000	309,000	4.9%	1,148,000	18.3%	103,000	1.6%
Manitoba	658,000	44,000	6.8%	147,000	22.4%	11,000	1.7%
Saskatchewan	593,000	30,000	5.1%	127,000	21.4%	10,000	1.7%
Alberta	1,572,000	102,000	6.5%	344,000	21.9%	41,000	2.6%
British Columbia	1,939,000	124,000	6.4%	500,000	25.8%	43,000	2.2%
Canada	16,966,000	1,145,000	6.7%	4,081,000	24.1%	369,000	2.2%

The link between unemployment rates and reliance on welfare or unemployment insurance becomes clear when the data are regrouped by subprovincial economic regions as in Table 2. As might be expected, the percentage of people on welfare or unemployment insurance rose as the regional unemployment rate went up. In areas where the rate was less than eight percent, 5.2 percent of the working-age population received welfare sometime in 1988, 1989 or 1990. In areas where the rate was 16 percent or higher, the percentage of the working-age population relying on welfare was 11.9 percent. The pattern is similar for people who received UI benefits. In areas of low unemployment, 20.7 percent of the working-age population received unemployment insurance sometime in 1988, 1989 or 1990. In areas of very high unemployment, the figure jumped to 45.5 percent.

**TABLE 2**  
**RECIPIENTS OF WELFARE AND UNEMPLOYMENT INSURANCE**  
**DURING THE PERIOD 1988-1990, BY REGIONAL UNEMPLOYMENT RATE**

Unemployment Rate	Working Age Persons	Received Welfare		Received U.I.	
		Estimated Number	Number as % of Persons in Category	Estimated Number	Number as % of Persons in Category
Less than 8%	9,692,000	503,000	5.2%	2,003,000	20.7%
8 - 11.9%	6,149,000	521,000	8.5%	1,636,000	26.6%
12 - 15.9%	630,000	61,000	9.7%	216,000	34.3%
16% and over	495,000	59,000	11.9%	225,000	45.5%

Beyond the influence of regional job markets, there are differences - sometimes major differences - which are associated with sex, age, marital status, education and health status. All have some influence in determining whether people are likely to need welfare or unemployment insurance. As a rule, these factors weigh more heavily on welfare recipients than UI recipients.



Table 3 shows working-age people who received welfare or UI by sex and age group. Women who received welfare sometime during the three years outnumbered men 664,000 to 481,000, and the differences were most apparent among women and men under 35.

<p><b>TABLE 3</b></p> <p><b>RECIPIENTS OF WELFARE AND UNEMPLOYMENT INSURANCE</b></p> <p><b><u>DURING THE PERIOD 1988-1990, BY SEX AND AGE GROUP</u></b></p>					
	Working Age Persons	Received Welfare		Received U.I.	
		Estimated Number	Number as % of Persons in Category	Estimated Number	Number as % of Persons in Category
Men	8,420,000	481,000	5.7%	2,014,000	23.9%
16-19 years	763,000	33,000	4.4%	156,000	20.5%
20-24 years	1,004,000	62,000	6.2%	403,000	40.2%
25-34 years	2,264,000	127,000	5.6%	662,000	29.2%
35-44 years	1,933,000	103,000	5.3%	370,000	19.1%
45-54 years	1,326,000	82,000	6.2%	227,000	17.1%
55-64 years	1,130,000	74,000	6.5%	194,000	17.2%
Women	8,546,000	664,000	7.8%	2,067,000	24.2%
16-19 years	729,000	57,000	7.8%	104,000	14.3%
20-24 years	998,000	109,000	10.9%	364,000	36.4%
25-34 years	2,324,000	213,000	9.2%	822,000	35.4%
35-44 years	1,967,000	127,000	6.5%	412,000	20.9%
45-54 years	1,336,000	77,000	5.8%	230,000	17.2%
55-64 years	1,191,000	80,000	6.7%	135,000	11.4%

The percentage of men in each age group who were on welfare varied little from one age group to another, but the percentage of women was especially high in the age groups 20 through 24 and 25 through 34. The higher figures for women are probably a reflection of a large number of single-parent mothers who received welfare.

The likelihood of falling back on unemployment insurance was greatest among both men and women for the age groups 20 through 24 and 25 through 34. The higher number of women 25 through 34 probably included a sizable number receiving unemployment insurance maternity benefits. Differences between regular UI benefits and maternity and sickness benefits were not noted in the Labour Market Activity Survey database.

Looking at the figures by sex and marital status in Table 4 on the next page, there are some noticeable differences among the categories of unemployment insurance recipients, but stark differences among welfare recipients.

Married men and married women have a relatively low risk of being poor, and only 3.9 percent of the married men and women of working age received welfare during the three-year period. The main reason for this is that many families consist of two-earner couples. Welfare is based on family need rather than individual need, so both spouses would presumably have to be out of work and ineligible for unemployment insurance or other government programs for a family to receive welfare.

The likelihood of receiving welfare is higher among single people than married people, and it is even higher for people in the "other" category. "Other" is made up of separated, divorced and widowed men and women. Previous reports by the National Council of Welfare have shown that women who are separated, divorced or widowed face much higher risks of poverty than men, so it is not surprising to see higher figures for women in the "other" category of Table 4 - 23.4 percent of the women received welfare compared to 13.9 percent of the men.<sup>5</sup>

Among recipients of unemployment insurance, the variations are much less pronounced by sex and marital status, and the reasons for the variations are not clear. The higher percentage for married women may be due primarily to maternity benefits.

**TABLE 4**  
**RECIPIENTS OF WELFARE AND UNEMPLOYMENT INSURANCE**  
**DURING THE PERIOD 1988-1990, BY SEX AND MARITAL STATUS**

	Working Age Persons	Received Welfare		Received U.I.	
		Estimated Number	Number as % of Persons in Category	Estimated Number	Number as % of Persons in Category
Men	8,420,000	481,000	5.7%	2,014,000	23.9%
Married	5,486,000	215,000	3.9%	1,184,000	21.6%
Single	2,525,000	209,000	8.3%	733,000	29.0%
Other	410,000	57,000	13.9%	97,000	23.6%
Women	8,546,000	664,000	7.8%	2,067,000	24.2%
Married	5,625,000	220,000	3.9%	1,483,000	26.2%
Single	2,046,000	246,000	12.0%	411,000	20.1%
Other	844,000	198,000	23.4%	173,000	20.5%

When the data are arranged by level of education as in Table 5, the percentage of the working-age population that received unemployment insurance varied little from group to group. The only group with a much lower risk of falling back on unemployment insurance was people with university degrees.

On the other hand, the percentage of people that received welfare sometime during the three years was much lower among people who had high school diplomas or better. A staggering 667,000 welfare recipients, or 58 percent of the total of 1.1 million welfare recipients, had not finished high school. This group probably included recent school drop-outs who found themselves unable to compete in the job market because of a lack of education or experience, young women who became pregnant and were forced to interrupt their education to



care for their children, and older workers who needed additional training to have any hope of getting back into the job market.

**TABLE 5**  
**RECIPIENTS OF WELFARE AND UNEMPLOYMENT INSURANCE**  
**DURING THE PERIOD 1988-1990, BY LEVEL OF EDUCATION**

Level of Education	Working Age Persons	Received Welfare		Received U.I.	
		Estimated Number	Number as % of Persons In Category	Estimated Number	Number as % of Persons in Category
None to eight years	1,875,000	319,000	17.0%	434,000	23.2%
Some high school	3,081,000	348,000	11.3%	806,000	26.2%
High school graduate	3,984,000	195,000	4.9%	1,057,000	26.5%
Some post-secondary	2,123,000	134,000	6.3%	497,000	23.4%
Post-secondary diploma	3,483,000	117,000	3.4%	895,000	25.7%
University degree	2,420,000	31,000	1.3%	392,000	16.2%

The Labour Market Activity Survey included several questions relating to the health status of people in the working-age population. Perhaps the most useful questions concerned disabilities among heads of families and "unattached individuals" during 1989 and 1990.<sup>6</sup> The survey estimated that 106,000 people or about seven percent of all family heads or unattached individuals who received unemployment insurance had disabilities severe enough to limit their

ability to work. The comparable figures among welfare recipients were 172,000 family heads or unattached individuals or 28 percent of all welfare cases.

The percentage of people with disabilities who received unemployment insurance was slightly lower than the percentage of about nine percent for the working-age population at large, while the percentage of disabled welfare recipients was about three times higher than the percentage for the working-age population. The 28 percent shown in the Labour Market Activity Survey is slightly higher than estimates by Health and Welfare Canada based on provincial welfare data. As of March 31, 1989, they estimated that about 24 percent of all welfare cases were headed by people with disabilities.

People with disabilities often face special problems in entering or staying in the labour force. Appendix C at the end of this report, taken from the 1991 Health and Activity Limitation Survey of Statistics Canada, describes barriers to employment among people with disabilities who were outside the labour force.

Other data in the Labour Market Activity Survey shed light on issues that are more or less directly related to incentives and disincentives to work. For example, there is data on the specific reasons people left paid jobs, comparisons between wage rates before and after changes in jobs, and reports on barriers to employment.

Tables 6 and 7 on the following pages look at men and women who left their jobs sometime from 1988 to 1990 - what economists call job separations - and their reasons for leaving. The tables compare all men and women ages 16 through 64 who left jobs with men and women who left jobs and who also received welfare or unemployment insurance sometime during the period.

The reasons given by people in the survey for leaving their jobs were arranged by the National Council of Welfare in an attempt to distinguish between "involuntary" and "voluntary" departures. "Involuntary" job separations are job losses that would normally be considered beyond the individual's control, and "voluntary" separations imply some measure of individual choice. The groupings are admittedly subjective. For example, people who retire could retire voluntarily or they could be forced to retire because of ill health or because of a mandatory age of retirement.

**TABLE 6**  
**NUMBER AND PERCENTAGE DISTRIBUTION OF MEN WHO LEFT JOBS,**  
**BY REASON FOR FIRST PERMANENT SEPARATION, 1988-1990**

Reason for Separation	Welfare Recipients		U.I. Recipients		All Men 16-64	
	% of All Reasons	Estimated Number	% of All Reasons	Estimated Number	% of All Reasons	Estimated Number
Found new job	10.8	29,000	13.9	229,000	22.3	911,000
Illness or disability	6.2	17,000	3.0	49,000	2.7	109,000
Company moving	5.9	16,000	5.8	96,000	5.2	212,000
Seasonal job	16.3	43,000	17.0	281,000	10.8	442,000
Permanent layoff	16.6	44,000	16.6	275,000	10.0	409,000
Labour dispute	0.2	N/A	0.2	3,000	0.3	13,000
Dismissal	7.6	20,000	6.7	111,000	3.9	160,000
Other job loss	5.6	15,000	4.9	81,000	5.8	238,000
"Involuntary" subtotal	58.4	156,000	54.3	896,000	38.8	1,584,000
Family responsibilities	1.3	3,000	1.0	17,000	1.2	48,000
Going to school	4.1	11,000	4.5	74,000	9.6	392,000
Moving	2.1	6,000	3.0	49,000	3.4	139,000
Retirement	1.4	4,000	2.2	37,000	3.4	138,000
Working conditions	7.7	20,000	5.5	91,000	5.2	213,000
Low pay	3.3	9,000	3.7	61,000	3.1	128,000
No advancement	2.6	7,000	2.2	37,000	2.3	93,000
Job security	1.3	3,000	1.9	31,000	1.4	57,000
Other voluntary	4.1	11,000	5.2	86,000	5.6	230,000
"Voluntary" subtotal	27.8	74,000	29.2	481,000	35.2	1,439,000
Reasons unknown	3.0	8,000	2.7	44,000	3.6	148,000
Total	100.0	267,000	100.0	1,651,000	100.0	4,083,000



**TABLE 7**

**NUMBER AND PERCENTAGE DISTRIBUTION OF WOMEN WHO LEFT JOBS,  
BY REASON FOR FIRST PERMANENT SEPARATION, 1988-1990**

Reason for Separation	Welfare Recipients		U.I. Recipients		All Women 16-64	
	% of All Reasons	Estimated Number	% of All Reasons	Estimated Number	% of All Reasons	Estimated Number
Found new job	12.9	38,000	13.6	207,000	19.7	776,000
Illness or disability	6.6	20,000	4.4	67,000	3.5	139,000
Company moving	4.2	12,000	5.9	90,000	4.9	194,000
Seasonal job	7.5	22,000	8.5	129,000	6.7	265,000
Permanent layoff	10.6	32,000	11.5	176,000	7.9	310,000
Labour dispute	0.6	2,000	0.2	3,000	0.2	9,000
Dismissal	5.5	15,000	3.7	60,000	2.7	112,000
Other job loss	8.9	24,000	5.2	86,000	5.2	214,000
"Involuntary" subtotal	42.3	126,000	40.1	612,000	31.6	1,242,000
Family responsibilities	9.3	28,000	10.3	157,000	7.6	298,000
Going to school	6.0	18,000	3.6	56,000	9.7	382,000
Moving	4.7	14,000	6.8	104,000	5.3	210,000
Retirement	1.6	5,000	2.3	35,000	2.7	105,000
Working conditions	9.6	29,000	9.1	139,000	7.8	308,000
Low pay	3.4	10,000	3.4	52,000	3.5	139,000
No advancement	1.6	5,000	1.8	27,000	1.9	76,000
Job security	1.1	3,000	1.2	18,000	0.9	37,000
Other voluntary	5.1	15,000	4.9	75,000	6.2	242,000
"Voluntary" subtotal	42.6	127,000	43.5	663,000	45.6	1,796,000
Reasons unknown	2.6	7,000	2.6	42,000	3.0	121,000
Total	100.0	298,000	100.0	1,525,000	100.0	3,935,000

Welfare and UI recipients were less likely than workers in general to have left one job for another one. Only 10.8 percent of the men who received welfare at some point in the three years and 13.9 percent of the men who had received UI had new jobs lined up when they left, while 22.3 percent of the men in the population at large left to take new jobs. The pattern was much the same among women.

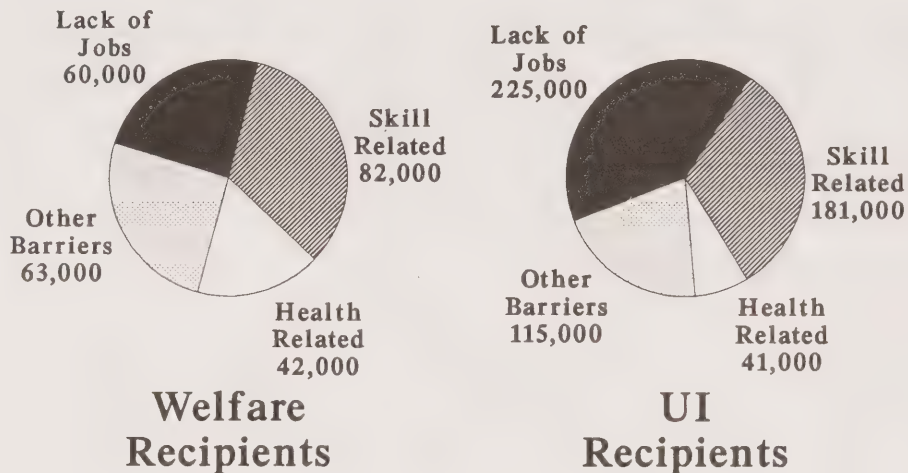
A second major difference is the high proportion of "involuntary" separations reported by welfare and UI recipients, particularly among men. Involuntary separations affected 58.4 percent of the men who received welfare, 54.3 percent of the men who received unemployment insurance, and only 38.8 percent of all working-age men. The comparable figures for women were 42.3 percent of welfare recipients, 40.1 percent of unemployment insurance recipients, and 31.6 percent of all working-age women.

Added together, the two categories "found new job" and "involuntary" subtotal accounted for the majority of men and women in all cases. Among men, the combined figures were 69.2 percent for welfare recipients, 68.2 percent for UI recipients and 61.1 percent for all working-age men. Among women, the figures were 55.2 percent for welfare recipients, 53.7 percent of UI recipients and 51.3 percent for all working-age women. In other words, the most common reasons for leaving a job were anything but frivolous.

One other difference that jumps out of the two tables involves family responsibilities as a reason for leaving a job. Very few of the men offered family responsibilities as a reason for job separation. However, it was one of the more common reasons cited by women, whether they were welfare recipients, UI recipients or women in the working-age population at large. The data are not broken down by specific types of family responsibility, but caring for children was presumably the most common reason, followed by caring for elderly relatives.

An estimated 247,000 family heads or unattached individuals on welfare at some point and 562,000 family heads or unattached individuals on UI who were looking for work in 1989 and 1990 reported specific barriers standing in their way. As shown in Graph C, the single biggest barrier in the opinion of the recipients themselves was a lack of jobs.

## Family Heads or Unattached Persons Facing Job Barriers in 1989 or 1990



Graph C

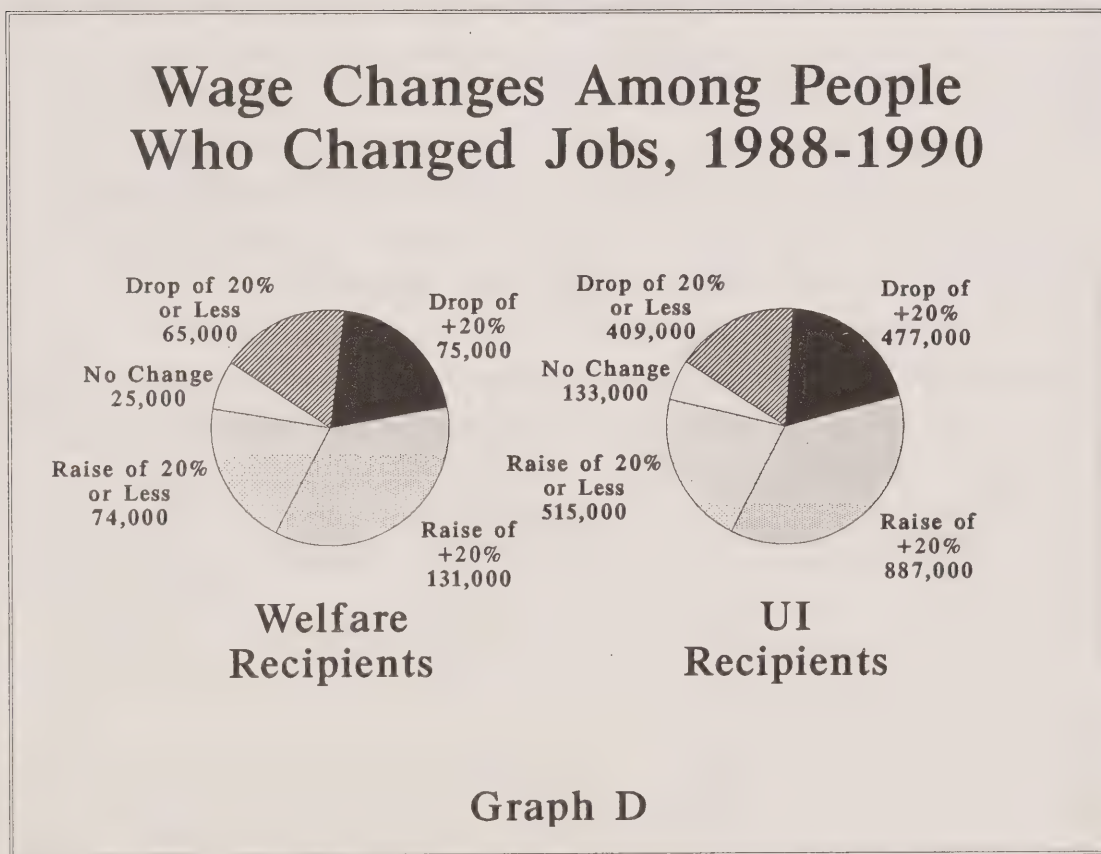
Lack of jobs was cited as a problem by 60,000 persons, or 24 percent of the family heads and unattached individuals who had received welfare, and by 225,000, or 40 percent of the family heads and unattached individuals who had received UI benefits.

About 82,000 welfare recipients and 181,000 UI recipients said they lacked the skills or experience needed for jobs that were available or faced other barriers in addition to lacking the necessary skills or experience. Long-term physical or mental conditions or health problems, either by themselves or in combination with other factors, were mentioned by 42,000 welfare recipients and 41,000 UI recipients. Other reasons or other combinations of reasons accounted for the rest of each group.



There was no specific information in the survey on factors such as language difficulties among recent immigrants or discrimination against members of visible minorities that are known from other sources to be barriers to jobs.

Just over six million people changed jobs during the period 1988 through 1990, including 370,000 people who were on welfare at some point and 2.4 million people who were on unemployment insurance. A small proportion of them ended up at their old wage rates, but most saw their salaries go up or down. The statistics in Graph D for people who had received welfare or unemployment insurance are very similar to the statistics for the working-age population as a whole.



More than half of the people got raises, but a sizable minority suffered losses. About 140,000 of the welfare recipients who changed jobs and about 886,000 of the UI recipients took

wage cuts. The losses were substantial in many of these cases, but that did not deter them from working.

Taken together, the data in the Labour Market Activity Survey challenge the belief that most people get jobs as soon as they leave school and work more or less continuously until they reach the age of retirement. The reality of recent years is that periods of unemployment or periods away from the paid labour force are fairly common.

Among people who have been on welfare, the "risk factors" for unemployment and welfare appear to be much the same as the risk factors for poverty described in the National Council of Welfare report Poverty Profile, 1980-1990 and the update for 1991. Lack of jobs is a general problem, but that is compounded by other factors. Single-parent families and people with little education are among the groups of people who are most likely to find themselves on welfare.

People who have been on unemployment insurance appear to be more like the working-age population at large. In many cases, the state of the local job market seems to be much more of a determining factor than personal or family characteristics.

The survey data for both welfare recipients and unemployment insurance recipients show no general lack of initiative in either group. Recipients face very real barriers to finding jobs. Those who have jobs do not normally quit for frivolous reasons, and many people are prepared to accept lower wages as an alternative to unemployment.

## UNEMPLOYMENT INSURANCE AND WORK

Unemployment insurance (UI) was designed specifically to provide income to workers during temporary periods of unemployment, and so it should come as no surprise that use of UI depends primarily on the extent of unemployment.

Data from the Labour Market Activity Survey in the previous chapter showed a particularly strong link between regional unemployment rates and the risk of falling back on unemployment insurance. The data also showed that sizable numbers of workers wound up on UI due to permanent layoffs or seasonal jobs that had come to an end. The lack of jobs was commonly cited as a barrier by people who were trying to get off UI.

Unemployment insurance provides "regular" benefits for workers who lose their jobs, sickness benefits, and maternity, parental and adoption benefits for parents.<sup>7</sup> Self-employed people, other than self-employed fishermen, are not eligible for benefits.

In the case of regular benefits, unemployed workers must be able to work and are expected to seek work actively. There are other requirements to qualify for UI, and there are limits on the duration of benefits. The requirements have become much stricter in recent years, and benefit periods have been shortened in many cases.

Workers need between ten and 20 weeks of insurable employment to qualify for regular unemployment insurance benefits. In areas where the regional unemployment rate is over 15 percent, workers need ten weeks of paid employment to qualify. In areas where the unemployment rate is six percent or less, they need 20 weeks of work.

In 1992, the normal UI benefit was 60 percent of average weekly insurable earnings to a maximum payment of \$426 a week.<sup>8</sup> Benefits began after a two-week waiting period and lasted for 17 to 50 weeks, depending on a person's weeks of insurable earnings and the regional unemployment rate. For example, a person in an area with an unemployment rate of more than 16 percent was able to qualify for UI with ten weeks of work and could draw benefits for 39 weeks, while a person with 21 or more weeks of work was eligible for the maximum 50 weeks of benefits. In an area where the unemployment rate was six percent or less, a person had to



work 20 weeks to qualify for 17 weeks of benefits. Even with 52 weeks of work, the maximum benefit period was 35 weeks.

Because unemployment insurance paid a maximum of 60 percent of normal earnings in 1992, people were always better off working. Table 8 shows this conclusion in more detail using the example of an unattached individual in Vancouver. The table compares take-home pay at the minimum wage with the income that a minimum-wage worker could have received as a UI recipient.

<p align="center"><b><u>TABLE 8</u></b></p> <p align="center"><b><u>UNEMPLOYMENT INSURANCE VERSUS WORK AT THE MINIMUM WAGE</u></b></p> <p align="center"><b><u>FOR AN UNATTACHED INDIVIDUAL IN VANCOUVER, 1992</u></b></p>		
	Gross Earnings from Minimum-Wage Job	\$11,353
Minus:	Canada Pension Plan Contributions	\$196
	Unemployment Insurance Premiums	\$341
	Federal Income Tax	\$774
	Provincial Income Tax	<u>\$385</u>
	Take-Home Pay	\$9,657
	Unemployment Insurance Benefits	\$5,400
Plus:	Exempt Earnings	<u>\$1,350</u>
	Gross Income	\$6,750
Minus:	Federal Income Tax	\$52
	Provincial Income Tax	<u>\$26</u>
	Net Income	\$6,673
	Take-Home Pay from Minimum-Wage Job	\$9,657
	Net Income while on Unemployment Insurance	<u>\$6,673</u>
	Incentive to Keep Working	\$2,985

The worker shown in the top part of the table worked 40 hours a week for the entire year and received \$11,353 in gross earnings. The minimum wage was \$5 an hour until February 1, 1992, and \$5.50 an hour afterward.

In calculating take-home pay, we deducted the Canada Pension Plan contributions and unemployment insurance premiums required by law and withheld money for federal and provincial income taxes. For the sake of consistency with other calculations in this report, the taxes were calculated using only the basic personal amount for a single person with no dependents and the tax credits allowed for CPP contributions and UI premiums.

In the case of an unemployment insurance recipient, we assumed that the person had worked long enough in 1991 at the previous minimum wage of \$5 an hour to qualify for 45 weeks of benefits. That was the maximum number of weeks permitted, because the regional unemployment rate was 8.5 percent in Vancouver as of January 1, 1992.

The UI benefits in the table of \$5,400 represent 60 percent of normal earnings of \$5 an hour for 45 weeks. No benefits were paid during the initial two-week waiting period, and benefits ended after 45 weeks. It is possible that the person could have gone on welfare for the last five weeks of the year, but only if he or she used up other available sources of income and was able to pass a "needs test."

People who receive regular UI benefits are able to work part time with no loss of benefits as long as their earnings do not exceed 25 percent of the UI benefit. However, any outside earnings during the two-week waiting period are deducted from future UI benefits. In the example in the table, the maximum possible exempt earnings are \$30 a week for 45 weeks or a total of \$1,350. We assumed that the person actually found a job for only a few hours each week.

We added the unemployment insurance benefits and exempt earnings together to get gross income. Both the UI benefits and exempt income are subject to income tax, so we calculated the federal and British Columbia income tax owing. Because of the low level of earnings, the person did not have to pay CPP contributions or UI premiums.

The difference between the two examples works out to \$2,985 a year. In other words, an unattached individual living in Vancouver had a financial incentive of \$2,985 to keep working full time at a minimum-wage job rather than relying on unemployment insurance and a few hours of work each week. The actual incentive to keep working would have been less in the case of people who would normally face additional expenses for work-related clothing, tools or transportation.

Another way of looking at the examples is to compare the two gross incomes with the poverty line, which is based on gross rather than net income. The poverty line for an unattached person living in a city of 500,000 or more in 1992 was \$15,175.<sup>9</sup> A person working at the minimum wage had gross income of \$11,353, or 75 percent of the poverty line of \$15,175, while a person with UI benefits and exempt earnings totalling \$6,750 was at 44 percent of the poverty line.

The comparisons are much the same at higher levels of earnings. Table 9 shows the incentive to keep working for an unattached person in Vancouver based on 1992 earnings of \$21,944 or \$10.55 an hour. That amount corresponds to the average earnings of people who actually drew UI benefits in 1992.

A person who worked full time had take-home pay of \$17,010 after deducting the amounts paid in income taxes, CPP contributions and UI premiums. A person on unemployment insurance plus exempt earnings for 45 weeks got \$12,164, or \$4,846 less for the year.

The comparisons between the two gross incomes and the poverty line are also revealing. A person who worked full-time for \$10.55 an hour had a gross income of \$21,944, or 145 percent of the poverty line of \$15,175. A person who relied on unemployment insurance and exempt earnings had gross income of \$14,231, or 94 percent of the poverty line.

The calculations in both Table 8 and Table 9 assume the maximum UI benefits that were possible in Vancouver in 1992. The incentives to keep working would have been even higher if the person had qualified for anything less than full UI benefits. For example, a person who had worked only 17 weeks in 1991 would have qualified for 24 weeks of unemployment insurance in 1992 rather than 45 weeks.



**TABLE 9**  
**UNEMPLOYMENT INSURANCE VERSUS "AVERAGE" EARNINGS**  
**FOR AN UNATTACHED INDIVIDUAL IN VANCOUVER, 1992**

	Gross Earnings	\$21,944
Minus:	Canada Pension Plan Contributions	\$450
	Unemployment Insurance Premiums	\$658
	Federal Income Tax	\$2,555
	Provincial Income Tax	<u>\$1,271</u>
	Take-Home Pay	\$17,010
	Unemployment Insurance Benefits	\$11,385
Plus:	Exempt Earnings	<u>\$2,846</u>
	Gross Income	\$14,231
Minus:	Federal Income Tax	\$1,381
	Provincial Income Tax	<u>\$687</u>
	Net Income	\$12,164
	Take-Home Pay	\$17,010
	Net Income while on Unemployment Insurance	<u>\$12,164</u>
	Incentive to Keep Working	\$4,846

In 1992, workers who quit their jobs without just cause, workers who were fired for misconduct, and unemployed workers who refused to accept suitable jobs got UI benefits of 50 percent of insurable earnings rather than 60 percent, and they had their benefit periods delayed by seven to 12 weeks in addition to the normal two-week waiting period.

As of April 1993, workers who quit their jobs without just cause or who are fired for misconduct are denied UI benefits altogether. Unemployed workers who turn down a suitable job offer or refuse to apply for suitable work can be disqualified for seven to 12 weeks and have

their benefits reduced to 50 percent of insurable earnings. Also as of April 1993, the maximum benefit was trimmed to 57 percent of insurable earnings from 60 percent.

All these changes reduced unemployment insurance benefits one way or another and thereby increased the incentives to keep working.

Whatever the amount and duration of unemployment insurance, benefits are sooner or later exhausted. Some of the recipients who are still unable to find work are forced to fall back on welfare.

The previous chapter showed that close to one-third of the people in the working-age population who received welfare sometime between 1988 and 1990 also received unemployment insurance. Because of the way the data were collected, it is impossible to know for sure whether most of these people went on welfare after exhausting their UI benefits. However, that would be the most likely chain of events.

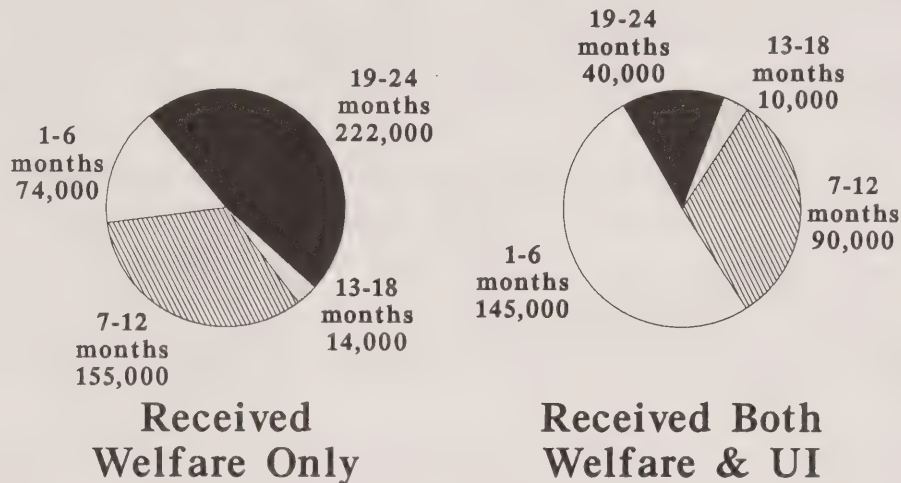
Graph E on the next page shows striking differences among the 750,000 families and unattached individuals who received welfare or both welfare and unemployment insurance sometime in 1989 or 1990.

The pie on the left side of the graph shows the number of months on welfare for the 466,000 families or unattached individuals who received welfare, but not unemployment insurance, sometime during the two years. These people included single parents, people with disabilities who had little or no connection with the labour force, and people with erratic patterns of paid work who did not qualify for unemployment insurance in the first instance.

The pie on the right represents the length of time on welfare for the estimated 284,000 families and unattached individuals who received benefits from both programs.

The pie on the left shows that 222,000 or nearly half of the families or unattached individuals who received welfare only were on welfare for between 19 to 24 months, or most of the two-year period. The situation is almost the reverse in the pie on the right representing those who received unemployment insurance as well as welfare. It shows that 145,000 families or unattached individuals, or about half of the total, were on welfare six months or less.

## Length of Last Interval on Welfare, 1989-1990



**Graph E**

These patterns have tremendous financial implications for governments. Unemployment insurance is run by the federal government, but it is financed entirely by contributions from workers and employers. Since the end of 1990, Ottawa no longer contributes any money to the program. Welfare, on the other hand, is paid by the federal and provincial governments.

Graph E suggests that changes in unemployment insurance which deny benefits to some workers could increase reliance on welfare. That would put added financial pressure on the federal and provincial governments, which are already concerned about their large deficits. Before any further cuts in unemployment insurance are even considered, it would be prudent for governments to have more definitive research on the links between UI and welfare.



## WELFARE AND WORK

Welfare is the income security program of last resort in Canada, because it assists people who fall through the gaps in other social safety nets. Some welfare recipients are people who do not qualify for unemployment insurance or who have exhausted UI benefits, but a significant number of recipients are children or adults who have no real ties to the labour force.

Health and Welfare Canada estimates that about 38 percent of all welfare recipients as of March 1992 were children under 18. Another 15 percent were single parents, most of them women and some of them with very young children. As well, about 20 percent of all welfare cases were headed by a person with a disability. Definitions of disability vary from province to province, but certainly some of the people with disabilities were unable to get paying jobs.

Aside from its role as the ultimate safety net, welfare has several other features that set it apart from other social programs. To qualify for welfare, people have to exhaust almost all their liquid assets, and they have to pass a "needs test" to show that any available income is insufficient to meet their basic needs.<sup>10</sup>

Unlike unemployment insurance, welfare is not tied to previous earnings in the workplace. Unlike unemployment insurance, welfare considers the needs of entire families, not just individuals. Unlike unemployment insurance, welfare is run by provincial and territorial governments, and welfare rates vary greatly from jurisdiction to jurisdiction. And unlike unemployment insurance, welfare is paid for by governments rather than workers and employers.

Contrary to popular opinion, the welfare system does provide some financial incentives to work, but the incentives vary greatly by household type. There are strong incentives for "single employable" people and two-earner couples to work in most provinces, but strong disincentives for other types of recipients.<sup>11</sup>

Table 10 provides one example of an incentive to work, using the case of a single employable person in Vancouver in 1992. The top portion of the table shows the gross earnings and take-home pay of a minimum-wage worker. The figures are identical to the figures in Table 8 in the previous chapter. The middle portion shows a single employable person on welfare.

**TABLE 10**

**WELFARE VERSUS WORK AT THE MINIMUM WAGE  
FOR A SINGLE EMPLOYABLE PERSON IN VANCOUVER, 1992**

	Gross Earnings from Minimum-Wage Job	\$11,353
Minus:	Canada Pension Plan Contributions	\$196
	Unemployment Insurance Premiums	\$341
	Federal Income Tax	\$774
	Provincial Income Tax	<u>\$385</u>
	Take-Home Pay	\$9,657
	Welfare Income	\$6,308
Plus:	Exempt Earnings	<u>\$1,000</u>
	Net Welfare Income	\$7,308
	Take-Home Pay	\$9,657
	Net Welfare Income	<u>\$7,308</u>
	Incentive to Work	\$2,349

For a single employable person on welfare, welfare income was calculated from figures published in the National Council of Welfare report Welfare Incomes 1992. It consists of the basic social assistance payments shown in Table 2 of the report plus any additional welfare benefits routinely provided by provincial governments. The federal GST tax credit, which is not taxable income and which is paid to low-income people whether they are in or out of the paid labour force, is not included in the total.

To the \$6,308 in welfare income, we added \$1,000 in exempt earnings. That was the amount a single employable person in British Columbia was allowed to earn in 1992 without losing any welfare benefits.<sup>12</sup> It is equivalent to 15 hours of work a month at \$5.50 an hour.

Earnings exemptions are a mixed blessing for welfare recipients. They allow recipients to augment their incomes with a few hours of work, but they also impose hefty tax-backs on recipients who want to work more than a few hours. The ideal alternative for many recipients would be to jump directly from welfare into a full-time job, assuming that full-time jobs were available.

British Columbia's earnings exemptions were among the most generous in Canada in 1992 relative to other provinces, but a closer look at the example in Table 10 shows how restrictive they were in an absolute sense. The maximum exemption for a single employable person was \$50 a month through April and \$100 a month for the rest of the year plus 25 percent of any earnings in excess of these amounts. The other 75 percent of additional earnings was effectively lost, because an amount equal to the 75 percent was deducted from the person's welfare cheque.

We did not assume any earnings beyond \$1,000 in Table 10 because we thought it was unlikely that many people would seek more hours of work knowing that additional earnings were worth only 25 percent of their rate of pay.

Basic welfare income plus exempt earnings gave a net welfare income of \$7,308. Welfare income is not taxable, and the amount of earned income was too small to be taxed. The level of earnings was also too small to be subject to Canada Pension Plan contributions or unemployment insurance premiums.

The incentive to work for a single employable person in Vancouver in 1992 was take-home pay minus net welfare income or \$2,349 a year. That was a bit less than the incentive to keep working of \$2,985 a year shown in the comparison of work versus unemployment insurance in Table 8 of the previous chapter.

Compared to the poverty line of \$15,175 in 1992, the minimum-wage job provided gross income of \$11,353 or 75 percent of the poverty line, while welfare and exempt earnings combined provided \$7,308 or 48 percent of the poverty line.

The National Council of Welfare did similar calculations comparing welfare versus work at the minimum wage in each province and Yukon for single employable people, single people



with disabilities, single parents with one child aged two, and one-earner and two-earner couples with two children aged ten and 15. No calculations were done for the Northwest Territories, because the territorial welfare system has no fixed shelter rates to use in determining overall welfare rates. Maximum shelter rates were assumed elsewhere.

The results are summarized in Table 11 on the next page. The detailed calculations for each jurisdiction and household type are given in Appendix A at the end of this report, along with detailed notes about the methodology.

In all cases, we assumed that the people lived in the largest city in the province or territory and that they were either on welfare or received income from a full-time minimum-wage job throughout 1992. Taxable family allowance benefits were included for the families with children, as were certain provincial benefits for families with children in Quebec, Manitoba and Saskatchewan. The federal GST credit, the federal child tax credit and refundable provincial tax credits were not included, because they were available to people regardless of the source of their income.

Beginning in 1993, federal family allowances and the federal child tax credit were replaced by a federal child tax benefit that is paid monthly to low-income and middle-income families with children under 18. The amounts paid over the course of a year are roughly the same as before. The main difference is that low-income families with earned income now get a supplement of up to \$500 a year. The supplement is not paid to families who depend on government programs such as welfare and unemployment insurance for the bulk of their income.

As in the previous calculations in this report, the minimum-wage incomes in Table 11 were expressed as take-home pay - gross income minus deductions for income taxes, CPP contributions and UI premiums. Welfare incomes included the maximum exempt earnings permitted without any reduction in welfare benefits.

The results vary greatly by family type and province. For the single employable person, there was a sizable incentive to work in all jurisdictions except Prince Edward Island and Manitoba. The figure for P.E.I. should be treated with caution because many single employable people on welfare had room and board arrangements and received welfare payments that were below the maximum possible. In these cases, the incentive to work would have been greater

than shown in Table 11. In Manitoba, the small disincentive to work was due to very generous earnings exemptions allowed by the City of Winnipeg for welfare recipients in its Wage Supplementation Program. The higher exemptions give recipients with modest earnings some relief from high tax-back rates.

**TABLE 11**

**INCENTIVES (AND DISINCENTIVES) BY HOUSEHOLD TYPE,  
WELFARE VERSUS WORK AT THE MINIMUM WAGE, 1992**

Household Type/ Province or Territory	Single Employable Person	Disabled Person	Single Parent	One- Earner Couple	Two- Earner Couple
Newfoundland	4,270	(842)	(2,135)	(2,696)	5,022
Prince Edward Island	125	(967)	(2,697)	(8,080)	(312)
Nova Scotia	2,448	(1,548)	(2,853)	(3,717)	4,269
New Brunswick	3,601	(771)	(789)	(3,003)	4,977
Quebec	2,207	1,127	2,793	(574)	7,154
Ontario	1,788	(2,412)	(4,685)	(8,810)	735
Manitoba	(42)	478	(46)	(9,047)	(1,353)
Saskatchewan	3,327	(408)	(618)	(4,390)	2,467
Alberta	2,059	1,039	(1,815)	(7,407)	1,049
British Columbia	2,349	(1,199)	(2,556)	(5,572)	2,925
Yukon	2,901	1,821	(1,115)	(7,723)	1,766

(Figures in brackets are disincentives.)

For the disabled person, there were incentives to work in Quebec, Manitoba, Alberta and Yukon and disincentives everywhere else. The main reason for the disincentives is that welfare benefits for people with disabilities are noticeably higher than benefits for single employable

people. In Prince Edward Island, for example, a person with a disability got special care and personal comfort allowances totalling \$1,092 that were not available to a single employable person.

For single parents, all jurisdictions except Quebec had disincentives to work, ranging from a minimal disincentive of \$46 a year in Manitoba to a huge disincentive of \$4,685 in Ontario. There is a simple explanation for this. The welfare system is based on family needs rather than individual needs, while the wage system is based on individual work and makes no allowances for family size. Welfare benefits in all provinces and Yukon are considerably higher for a family of two than for a single employable person. For people in the work force, the single parents in the table had the same minimum-wage earnings as single employables, but they had to provide for their children as well as themselves on the same meagre incomes.

Quebec stands apart from the others because of the province's Parental Wage Assistance Program for low-income workers with children. The program operates outside the welfare system and differentiates between families who get most of their income from earnings and families who get most of their income from government programs. Single-parent families headed by women under 65 are the group with the highest poverty rates of any family type. The Parental Wage Assistance Program is an imaginative way of directing sizable benefits to those single parents with strong attachments to the labour force.<sup>13</sup>

The Parental Wage Assistance Program provides a wage supplement of up to 33 percent of net earnings and additional sums to defray the cost of child care and housing. The maximum work income supplement alone in 1992 was \$2,976 for a single parent with one child. We estimated that the single parent in the table received a supplement of \$2,870. Additional benefits for child care and housing were not calculated because they depend on circumstances that vary enormously from family to family.

Manitoba and Saskatchewan also have special programs for families with children, but they provide far less income, and they go to both welfare recipients and low-wage parents. In the table, the Manitoba single-parent family got the maximum possible benefit of \$360 under the Child Related Income Support Program. The Saskatchewan family got \$320 of the maximum possible benefit of \$1,200 under the Family Income Plan. Benefits under the Saskatchewan plan are highly targeted and disappear at low levels of family income.



For the one-earner couples in Table 11, there were disincentives to work in all jurisdictions, because there was only one worker to provide for a dependent spouse and two children. The welfare system took this into account, but the wage system did not. The much smaller disincentive in Quebec was due to the Parental Wage Assistance Program, which paid an estimated work income supplement of \$3,194 to the one-earner couple.

Finally, two-earner couples in the table had two minimum wage-earners by definition, and that gave them much more of an incentive to work. There were incentives to work in nine of the 11 jurisdictions and disincentives in Prince Edward Island and Manitoba.

There are two possible conclusions that could be drawn from the data in Table 11: that welfare rates are too high or that minimum wages are too low to provide reasonable incentives to work. The National Council of Welfare emphatically rejects the notion that welfare rates are too high. Our calculations of welfare incomes over the years have shown that recipients in most provinces survive on incomes that are far below the poverty line. Rates for single employable people were the least adequate, ranging from a mere 24 percent of the poverty line in New Brunswick to 62 percent of the line in Prince Edward Island in 1992. Rates for most people on welfare have kept ahead of the rate of inflation, but some categories of recipients in Newfoundland, Prince Edward Island, New Brunswick, Saskatchewan and Alberta actually saw their purchasing power decline between 1986 and 1992.

As well, disincentives to work are most likely to be found among people with disabilities and families with children where there is only one wage-earner. The Council believes that Canadians would not support reductions in welfare if the main groups to be squeezed included children and people with disabilities.

The other possible conclusion is that minimum wage rates are too low to provide a sufficient incentive to work in all cases, and there is considerable historical data to support this view. The purchasing power of the minimum wage peaked in the mid-seventies in all jurisdictions in Canada. Between 1976 and 1992, the value of the minimum wage fell by 14 to 33 percent for workers under provincial jurisdiction and by 48 percent for the limited number of workers under federal jurisdiction.

In 1976, minimum wage earnings for a full-time worker amounted to between 96 and 118 percent of the poverty line for an unattached individual living in a large city. It was actually possible to have a minimum-wage job and not live in poverty. That changed within a very few years, and by 1992, minimum-wage incomes had fallen to between 55 and 83 percent of the poverty line. Detailed information about changes in the minimum wage can be found in Appendix B of this report.

Raising the minimum wage would take away some, but not all, of the disincentives to work shown in Table 11. An increase of \$1 an hour, for example, would provide an additional \$2,080 a year in gross income to a full-time worker. A look at the column for single-parent families in the table shows that another \$2,080 would still leave single parents in Newfoundland, Prince Edward Island, Nova Scotia, Ontario and British Columbia better off on welfare than in the paid labour force. There would still be disincentives for one-earner couples everywhere except in Quebec.

A more effective solution would be to help welfare recipients find jobs that pay substantially more than the minimum wage. Virtually all the disincentives in Table 11 would disappear if the comparisons were made between welfare and jobs paying \$10 or \$11 an hour rather than welfare and jobs paying the minimum wage.

## **ADDED INCENTIVES AND DISINCENTIVES FOR WELFARE RECIPIENTS**

The calculations in the previous chapter comparing welfare incomes with minimum-wage incomes tell only part of the story. Welfare recipients entering the paid labour force have to contend with work-related expenses. They often have concerns about losing subsidies for child care and about paying for health care expenses not covered by medicare once they break free of welfare. Rent increases may be a problem for the minority of welfare recipients who are also beneficiaries of social housing programs.

Beyond these specific financial concerns, welfare recipients may have to contend with general feelings of insecurity that arise because of the present uncertainties of the labour market. Few jobs are able to offer security in the long term, and some jobs are precarious even in the short term.

Work-Related Expenses. All provinces have provisions in their welfare programs to defray the additional expenses that welfare recipients face when they start working. Among the most common items covered are day care, transportation, work clothing and tools.

Benefits can be delivered to recipients in two ways. They can get an increase in their monthly welfare cheques to pay for certain additional expenses, or they can deduct certain work-related expenses from their gross earnings when calculating net earnings for the purposes of welfare. Higher deductions have the effect of increasing the amount of money people can earn before their welfare cheques are reduced.

Most provinces make use of both methods. Newfoundland, for example, grants extra welfare assistance for day care, up to \$100 a year for special clothing and up to \$100 a year for work-related tools. As well, recipients are allowed to subtract the following work-related items from their gross earnings: federal and provincial income taxes, Canada Pension Plan contributions, unemployment insurance premiums, union dues, transportation costs, the cost of equipment and clothing required for work, babysitting or day care costs up to \$260 a month if care is absolutely essential to work, and unspecified additional expenses incurred because of work.



Providing extra assistance to welfare recipients or allowing them a break on work-related expenses in calculating exempt earnings increases the incentive to work. The key question, however, is whether the allowances made by any given welfare system are generous enough to cover the actual costs of going to work. If a welfare recipient faces back-to-work expenses of \$300 a month and the welfare system only offsets expenses of \$200 a month, there may be little incentive to work.

Supplementary Health Benefits. Another concern of welfare recipients is the loss of health care benefits that are not covered by medicare. People on welfare are often eligible for special assistance to defray the cost of prescription drugs, dental care and eyeglasses. Special assistance is generally provided at the discretion of welfare officials and may not always be readily available. Some provinces provide specifically for certain health-related benefits as part of their welfare programs. Others are less explicit about what they do or do not cover.

The costs of health-related benefits do not seem to be unduly high for the welfare system as a whole, although the data are sketchy. In 1987, the Ontario government estimated the average cost of drugs, dental care and glasses to be about \$372 a year for each family on provincial welfare. About the same time, Manitoba estimated its average costs at \$231 for each welfare recipient or \$409 for each welfare household. A 1981 estimate from Quebec put the cost at \$234 for each recipient.<sup>14</sup>

In a few provinces, whatever health-related benefits exist are lost as soon as welfare recipients are able to get enough income from other sources to break free of the system. Recipients in these provinces who have part-time minimum-wage jobs and who are getting a small amount of welfare to make ends meet may have no incentive to work a few extra hours, because they could lose the last portion of their welfare cheques and also be forced to pay for medications, dental care and glasses on their own.

Prince Edward Island, Quebec, Ontario, Manitoba, Saskatchewan and British Columbia have all tried to come to grips with this dilemma. Even among these provinces, the scope and generosity of assistance varies greatly.

Prince Edward Island does not provide for automatic coverage of non-insured health services to recipients who leave welfare for paying jobs, but it does allow them an easy return

to welfare for the purpose of covering health-related expenses. In other words, people can take jobs knowing that they will be protected from any sizable expenses.

In Quebec, welfare provides extended coverage of dental and pharmaceutical services for up to 12 months for former welfare recipients who are full-time students in colleges or universities, up to six months for participants in wage-subsidy programs, and up to three months for people who have earnings from seasonal work.

Under provincial welfare programs in Ontario, people who are almost poor enough to qualify for welfare and who have income from jobs or training allowances receive free dental services, prescription drugs, eyeglasses, and hearing aids plus a variety of other special items that are normally available only to welfare recipients. The purpose of these provisions is to create a "buffer zone" for people who are moving off welfare into low-wage jobs and also to encourage low-wage workers to stay in the labour force rather than going on welfare.

Ontario's municipal welfare programs are much more restrictive. They provide coverage for prescription drugs, but not other uninsured health services, to wage-earners who are not quite poor enough to qualify for welfare.

In Manitoba, single-parent families and disabled people who leave provincial welfare can have their drug, dental and optical benefits extended for up to one year. The provisions apply only to people with earned income close to welfare income levels.

Families with children under 18 in Saskatchewan who move from welfare to low-wage jobs can keep their supplementary health benefits. Recipients who get jobs through certain federal or provincial programs maintain supplementary benefits as long as they are in one of the programs.

British Columbia provides transitional benefits to single-parent families and recipients of Handicapped Benefits. Single parents and their dependents can get \$500 in dental services and subsidized prescription drugs for up to a year. People with disabilities get continued coverage for as long as they remain employed. B.C. also provides transitional assistance for child care and transportation costs associated with work.

Child Care. Despite special provisions for child care in all welfare programs, the shortage of adequate and affordable child care remains a major disincentive to work for many families with children. Child care expenses normally run several thousand dollars a year or more for each child. It is difficult to imagine stay-at-home parents seeking jobs if the wages are low and the out-of-pocket expenses for child care are high.

All the major reports dealing with women and the workplace dating back to the 1970 report of the Royal Commission on the Status of Women in Canada have highlighted child care as an essential service to facilitate the full participation of mothers in the labour market. Every major social policy group, including the National Council of Welfare, has called on governments to increase the supply of spaces for children in licensed day care centres and licensed family homes and for more generous government subsidies to put licensed child care within the reach of all low-income parents who need it for their children.

"The inhibiting effect of child-care expenses is an especially important barrier for women who would normally receive low wages in the labour market," said Women and Labour Market Poverty, a publication of the Canadian Advisory Council on the Status of Women. "A person who works in a paid job, and has to pay for child-care expenses, as well as transportation, clothing and other work-related expenses, is often financially worse off employed than on social assistance."<sup>15</sup>

A 1988 National Council of Welfare report, Child Care: A Better Alternative, underlined the enormous shortage of spaces in licensed child care for children under 13 and the small percentage of families with young children who actually received subsidies for child care. Little has changed since the report was published to make it easier for parents to find suitable care that they can afford. Indeed, the financial pressures on child care programs have increased in Ontario, Alberta and British Columbia because of limits on cost-sharing imposed on the three provinces by the federal government.

Much of the money for child care programs comes from the federal and provincial governments under the terms of the Canada Assistance Plan, the same plan that provides money for welfare. The plan defrays the cost of child care for parents on welfare and also for other low-income and middle-income parents.



The federal and provincial governments have income guidelines for parents who are not on welfare that help determine whether parents qualify for child care subsidies under the Canada Assistance Plan. The limits as of July 1992 are shown in Table 12. All the figures are after-tax incomes, except the figures for Saskatchewan and Alberta, which are gross incomes. Figures for Ontario were not included in the table because Ontario uses a "needs test" rather than income limits to determine eligibility for child care subsidies.<sup>16</sup>

**TABLE 12**  
**INCOME LIMITS FOR CHILD CARE SUBSIDIES, 1992,**  
**TWO-EARNER COUPLE WITH TWO CHILDREN**

	Income Limit for Maximum Subsidy	Income Limit for Partial Subsidy	Income of Two Parents at Minimum Wage
Newfoundland	11,040	19,320	17,978
Prince Edward Island	14,880	41,568	18,028
Nova Scotia	17,280	40,356	18,738
New Brunswick	13,452	28,332	18,732
Quebec	15,000	49,000	22,762
Ontario	(income limits not used by the provincial government)		
Manitoba	18,895	41,515	19,166
Saskatchewan	20,820	43,344	21,759
Alberta	21,425	35,500	21,209
British Columbia	22,392	33,192	20,151
Federal Government	40,632	60,948	not applicable

Families with incomes up to the limits in the first column were eligible for maximum subsidies. However, that does not mean that all of them actually received subsidies. Some

provinces limit the number of subsidies paid. Some provinces have additional requirements aside from income that have to be met before subsidies are paid. And in some provinces, the maximum allowable subsidies do not necessarily cover the full cost of care in all cases.

Families with incomes between the first and second columns were eligible for partial subsidies and had to pay the rest of the cost of care out of their own pockets. Families with incomes above the limits in the second column got no subsidies at all.

Couples with both spouses working in minimum-wage jobs were eligible for maximum subsidies in only two provinces in 1992: Alberta and British Columbia. In Nova Scotia, Manitoba and Saskatchewan, they qualified for close to maximum subsidies. The situation in Ontario is difficult to assess because of variations allowed from municipality to municipality and because of the absence of income guidelines. Provincial officials say subsidies are generally targeted to families most in need.

By way of comparison, the federal government's income limits for a couple with two children were \$40,632 for a maximum subsidy and \$60,948 for a partial subsidy. All the couples in Table 12 would have qualified for maximum subsidies.

The previous chapter of this report showed that two-parent families with only one parent in the workforce were better off on welfare than working at the minimum wage. When the other parent entered the work force, most of the families were better off working. In our view, it makes no sense for governments which are intent on reducing the welfare rolls to be tight-fisted with child care subsidies. Although some parents can turn to other family members to look after their children free of charge, most parents have to find a way to pay for child care.

Single-parent families with young children are in a worse position than two-parent families. There is only one parent to look after the children and normally only one wage-earner or potential wage-earner in the family. Our calculations showed that most single-parent families were better off on welfare than working at the minimum wage. Many of them would be better off working if they were able to find jobs that paid more than the minimum wage and if they did not have to worry about additional out-of-pocket expenses for child care.

Housing. Most welfare recipients get their housing in the private rental market, and their rents are determined by local market conditions. Even if they see a huge increase in their incomes because of earnings, their rents remain the same, and there is no disincentive to work.

However, the situation is different for welfare recipients who live in social or government-subsidized housing. Once their earnings increase beyond a certain amount, it is possible they could face rent increases at the same time that their welfare cheques are shrinking because of high welfare tax-back rates.

The difficulty arises because of differences in the way that social housing rents are determined for people on welfare and for low-wage workers. In most provinces, the rents paid by welfare recipients living in social housing are negotiated between welfare and housing officials, taking into account the amounts paid by the welfare system for different kinds of households. The rents paid by low-wage workers living in social housing are rents geared to income, and they normally amount to 25 or 30 percent of gross income.

One of the questions that remains to be answered is how rents negotiated for welfare purposes compare to rents geared to income. This is difficult to do, because housing programs and welfare programs both vary greatly from province to province. In some areas, there may be few if any disincentives to work for welfare recipients, because the rents they pay when they are fully dependent on welfare may be relatively the same when earnings become their major source of income. In other areas, rents may rise noticeably when people make the jump from welfare to work.

Security of housing may be a concern to some welfare recipients living in social housing. What happens if they get regular jobs, move into the private rental market and suddenly find themselves unemployed? Getting back into subsidized housing may not be easy if there are already long waiting lists.

Much more research remains to be done on the interaction between the social housing and welfare systems. Some questions may be answered by a new longitudinal database on residents of social housing that is being developed by Statistics Canada in co-operation with Canada Mortgage and Housing Corporation, Health and Welfare Canada, and Employment and Immigration Canada. The database should be accessible to researchers in 1994.



## **OTHER ALTERNATIVES FOR WELFARE RECIPIENTS**

The incentives and disincentives outlined in previous chapters of this report are most relevant to welfare recipients who would be able to move directly into paying jobs if suitable jobs were available. Our assumptions were that if the financial incentives to work are sufficient and if disincentives such as a lack of affordable child care can be overcome, most welfare recipients would take advantage of available work opportunities.

In reality, all these assumptions may not be met. Some welfare recipients are poorly educated and have to overcome educational barriers that prevent them from getting jobs. Others are unskilled or lack the specific skills needed for jobs in their areas of residence. Still others who are just entering the labour force may need additional incentives to get past the lower wage levels that often accompany a first job.

Education and Training. Hundreds of thousands of welfare and unemployment insurance recipients have been involved in educational or training programs, as shown by data from the Labour Market Activity Survey in Table 13 on the next page.

Among those who received welfare in 1989 or 1990, there were 54,000 heads of families and 27,000 unattached individuals who were full-time students for at least two months, as well as 41,000 family heads and 24,000 unattached individuals who were enrolled in government-sponsored training programs. Among recipients of unemployment insurance, there were 58,000 heads of families and 66,000 unattached individuals who were students and 135,000 family heads and 73,000 unattached individuals who were involved in training.

Presumably, some of the welfare and UI recipients had their educational or training costs paid by governments, and many of the others in the working-age population at large had to pay all or part of the costs out of their own pockets. The high cost of education or training could be a barrier for low-income workers who want to improve their prospects in the job market. In addition to tuition or training fees, there is the cost of books or supplies, the cost of transportation to and from the school or training site, and babysitting or child care fees for workers with young children.

**TABLE 13**

**UNATTACHED INDIVIDUALS AND HEADS OF FAMILIES  
WHO RECEIVED WELFARE OR UNEMPLOYMENT INSURANCE  
IN 1989 OR 1990, BY TRAINING OR SCHOOL ATTENDANCE**

	Working Age Population	Received Welfare		Received U.I.	
		Estimated Number	Number as % of Persons in Category	Estimated Number	Number as % of Persons in Category
Full-Time Students	462,000	80,000	17.4%	124,000	26.9%
Heads of Families	193,000	54,000	27.8%	58,000	30.3%
Unattached	269,000	27,000	10.0%	66,000	24.5%
Trainees	1,137,000	65,000	5.7%	208,000	18.3%
Heads of Families	798,000	41,000	5.2%	135,000	17.0%
Unattached	339,000	24,000	7.1%	73,000	21.4%

The federal and provincial governments are heavily involved in a variety of educational and training programs, and it would require a separate report just to describe these programs and the results they have produced in recent years. From the point of view of welfare recipients, the largest and most important initiative arose from the 1985 federal-provincial agreement on the enhancement of employment opportunities for social assistance recipients.

The Canadian Jobs Strategy. One of the major concerns of governments at the time was an increasing proportion of welfare recipients who were considered to be employable. One purpose of the federal-provincial agreement was to give welfare recipients better access to jobs by way of the Canadian Jobs Strategy.

Between the fiscal years 1986-1987 and 1990-1991, an estimated 164,000 welfare recipients were enrolled in the programs or nine percent of the total of 1.7 million people who participated in the Canadian Jobs Strategy during those years. The cost of the programs that were directed to welfare recipients was \$1.3 billion or 17 percent of total program costs of nearly \$7.6 billion. The average amount spent was \$8,020 for each welfare recipient, compared to \$4,339 for each person in the Canadian Jobs Strategy overall.<sup>17</sup>

The basic full-time training allowance was \$3.50 an hour or \$7,280 a year. Single parents were paid at 120 percent of the basic rate plus up to \$16 a day for child care expenses. One-earner couples got 140 percent of the basic rate. The rates meant that most single employable people and many single parents with one child were better off in training than on welfare. The rate for couples, however, was well below the typical amounts paid by welfare.

The programs were evaluated by a team of outside experts headed by officials of Employment and Immigration Canada, and the results were published in draft form in March 1993. The evaluation team concluded that the programs provided "substantial gains" for the people who participated and for the economy in general. Surveys comparing participants in the programs with welfare recipients who did not participate showed that participants had higher annualized earnings on average than non-participants and they spent a much greater proportion of their time in paying jobs.

However, the evaluation report also included some unsettling estimates of the impact of training on government costs and the cost of unemployment insurance. Five-year projections are given in Table 14 on the next page.

The federal and provincial governments had to pay for the cost of training initially. Over the longer term, they save money because they are paying less for welfare as trainees enter the work force, and they gain income tax revenues from the earnings of former trainees. The average net cost to governments from these three items was estimated at \$1,581 for each trainee.

The evaluation team also projected an increase in the cost of unemployment insurance payments to former trainees, a cost that is ultimately paid by employers and workers in the form of UI premiums. When the net cost to governments is added to the increased cost of unemployment insurance, the overall net cost is \$4,009 for each trainee.



**TABLE 14**  
**ESTIMATED IMPACT OF TRAINING ON GOVERNMENT AND**  
**UNEMPLOYMENT INSURANCE COSTS OVER FIVE YEARS**  
**FOR EACH WELFARE RECIPIENT IN THE CANADIAN JOBS STRATEGY**

Impact on Federal and Provincial Governments	
Cost of Training	\$8,464
Minus: Decrease in Welfare Costs	\$2,023
Increase in Income Tax Revenue on Earnings	<u>\$4,860</u>
Net Cost to Governments	\$1,581
Plus: Increase in Unemployment Insurance Costs	<u>\$2,428</u>
Overall Net Cost	\$4,009

Unfortunately, the decrease in welfare costs is more than offset by an increase in the cost of unemployment insurance. It would appear that training programs sometimes get people into jobs that are temporary, but long-lasting enough to qualify them for unemployment insurance. In effect, people are able to escape from welfare through work, only to fall back on unemployment insurance. In the process, a sizable portion of the welfare bill of the federal and provincial governments is shifted to workers and employers.

Evaluating the impact of training programs is less than an exact science, and even the best efforts of the experts are hampered by factors that are difficult, if not impossible to control. There are problems in assessing the long-term impact of programs, there are problems related to the selection of people for training, and there are problems in accounting for a phenomenon known as "displacement." Displacement is commonly used to describe situations where a person involved in a training or wage-subsidy program gets a job that would otherwise have been filled by someone else.

Ideally, training would have a beneficial long-term impact on individuals and also reduce the long-term cost of income support programs. Whether this happens or not is difficult to

assess in the absence of long-term studies. Data for the evaluation of the Canadian Jobs Strategy were collected in two stages, one stage roughly two years after the first, and extended to five years statistically. A better, but more difficult way to proceed would come from actual interviews with trainees and non-trainees five years later.

The selection of trainees poses problems of a different nature. It is possible that people who enrol in training are more apt to succeed than those who do not enrol. They may have more work experience prior to going on welfare. They may have talents or skills that are better suited to local labour market conditions. They may be more flexible about unusual hours of work. They may simply be more ambitious - or more desperate - for jobs.

Some of these factors can be isolated by statistical analysis, but others cannot. Whatever the reason, the people who sign up for training and go on to paying jobs may be the people who would have been most likely to succeed even in the absence of training.

Another factor that has confounded the experts is displacement. An employer could hire either a person who has been trained at government expense or a non-trainee who is unemployed. Any gain from hiring one of the people is offset by the loss from not hiring the other.

There is no accepted standard for accounting for displacement in the evaluation of training programs. The study team for the Canadian Jobs Strategy did one series of calculations assuming a displacement effect of 25 percent. The cost-benefit ratios were still positive, but less positive than the calculations done without any allowance for displacement.

Our concerns about evaluating the impact of job training programs should not be taken as a criticism of training itself. There is no doubt that Canada benefits from having a more skilled labour force, and individual Canadians who learn new skills are certainly better off than before. Training is particularly important for people who started out with low levels of schooling or minimal job skills and people who are seeking jobs after years out of the labour force.

At the same time, education and training are not the only ways, and they are not always the best ways for helping people get jobs. As we saw in previous chapters, there can be many

disincentives facing welfare recipients who try to ease themselves into the workplace gradually. A clean break with the welfare system into a full-time job with a decent salary can be a more attractive alternative. A common problem for people trying to do this is the fact that wages for entry-level jobs tend to be low.

The Self-Sufficiency Project. The federal government has recognized the possible short-term disincentives associated with entry-level wages, and it is providing \$69 million in funds for a research project in British Columbia and New Brunswick testing a way of overcoming the problem. The Social Assistance Recipients Self-Sufficiency Project, announced in May 1992, will assess the effectiveness of an earnings supplement to help a "small but significant" number of social assistance recipients with dependents, the vast majority of them single-parent mothers, get off welfare.

The project provides earnings supplements for up to three years to welfare recipients ready to work, but whose family needs are greater than entry-level wages. The hope is that participants will gain the experience and connections necessary to progress to higher-level jobs with higher levels of pay within a limited period of time.

"For some social assistance recipients, the major barrier to working is the gap between their initial earning power and the minimum amount required to be self-sufficient," the Minister of Employment and Immigration said in announcing the experiment. "A temporary earnings supplement will permit participants to meet their needs while gaining valuable work experience."<sup>18</sup>

Participants find jobs on their own, with appropriate help and advice from project staff, and employers are not told they are hiring former welfare recipients. These arrangements should decrease the possibility of employers offering lower than normal starting salaries or withholding normal pay increases.

The supplements cover half the difference between actual earnings and "ceiling" earnings. The ceilings are \$30,000 in New Brunswick and \$37,000 in British Columbia. A person in New Brunswick earning \$12,000, for example, would get a supplement of \$9,000 and would wind up with total income of \$21,000. A person earning \$20,000 would get a supplement of \$5,000 for a total income of \$25,000.



The project will offer supplements to 4,000 single parents in New Brunswick and British Columbia. The \$69 million includes administration and research as well as the cost of the supplements.

The project in the two provinces is being evaluated by independent social policy researchers. Their findings will assess the effectiveness of wage supplementation and identify the groups of participants most likely to benefit. The results for participants will be compared with the results for a group of non-participants. Both groups are being selected at random and followed throughout the life of the project to ensure the most accurate findings possible.

### **CONCLUSION: FUTURE DIRECTIONS**

As in most areas of social policy, there is no magic formula for creating incentives to work or making disincentives disappear. This has been a first effort by the National Council of Welfare at defining some of the problems. It is beyond the scope of this report to present detailed solutions, but we would highlight several areas of concern that require further attention.

- \* Our priority should be fiscal and economic policies that will help reduce unemployment. Full employment is the best way to reduce dependence on welfare or unemployment insurance.
- \* The trend toward part-time and short-term jobs must be halted. These "non-standard" jobs accounted for half of all new jobs created between 1981 and 1986, and the trend seems to be continuing.<sup>19</sup>
- \* Minimum wages provided a reasonable standard of living for unattached people as recently as 15 years ago. The dramatic drop in the purchasing power of the minimum wage since the mid-seventies is certainly one of the main reasons many people are not always better off working today.
- \* Data presented in this report suggest that cuts in unemployment insurance can lead to greater reliance on welfare. Before any further cuts are even considered, there needs to be definitive research on this issue.
- \* Provincial and territorial governments need to look again at ways of providing subsidized prescription drugs, dental care, eyeglasses and other supports to low-wage workers. The initiatives developed in Ontario appear to be the most promising for helping people who leave the welfare rolls for jobs and also for encouraging low-wage workers to continue working.
- \* It is not clear that the allowances made by provincial welfare systems are always sufficient to cover reasonable back-to-work expenses. There will continue to be

disincentives to work whenever the amount of help falls short of the actual costs of going to work.

- \* There is a need for a thorough review of earnings exemptions in the welfare system to address the problem of excessively high tax-back rates. A related issue for further research is whether people normally ease themselves off welfare with the help of earnings exemptions and part-time work or whether they are more apt to jump directly from welfare into full-time jobs.
- \* It is not uncommon for unattached individuals with incomes far below the poverty line to pay up to 12 percent of their gross incomes in taxes. Our preferred solution to this inequity is a low-income tax credit that would reduce federal and provincial income taxes to zero for the "working poor."
- \* One way of helping working poor families with children is through additional child benefits. Quebec appears to have the best solution in its Parental Wage Assistance Program. The program provides very generous benefits to low-income working parents and removes many of the disincentives to work they would otherwise face.
- \* The lack of adequate and affordable child care remains an insurmountable barrier for many mothers with young children. The National Council of Welfare repeats its earlier recommendations for more government support for child care programs.
- \* In the areas of training and job placement, there is a need for more and better evaluations before new programs are embraced by governments. The systematic, experimental approach taken in the self-sufficiency project for welfare recipients in British Columbia and New Brunswick should yield valuable information about one kind of incentive to work.

Finally, most of the issues raised in this report are of concern to both the federal and provincial governments, and we hope they will be able to put aside past differences and address the issues together. The challenges ahead are enormous, and tackling them successfully will require the co-operation as well as the imagination of both levels of government.



### FOOTNOTES

1. Two 1993 publications by the Caledon Institute of Social Policy in Ottawa address the issue of high tax-back rates in Ontario. See Ken Battle and Sherri Torjman, The Welfare Wall: The Interaction of the Welfare and Tax Systems and The Welfare Wall: Reforming the Welfare and Tax Systems.
2. For labour market definitions in more detail, see The Labour Force published monthly by Statistics Canada (Catalogue No. 71-001).

Statistics Canada's Survey of Consumer Finances showed that 97 percent of the families with heads under age 65 reported incomes from wages and salaries in 1991, while only 15 percent of the families had income from non-farm self-employment. Among unattached individuals under 65, 94 percent reported income from wages and salaries and only seven percent from non-farm self-employment.

3. The survey reported that 4,081,000 people of working age received unemployment insurance sometime during the three-year period. Of that total, there were 68,000 who were not employed at all during the period, so the number of UI recipients in Graph B appears as four million rather than 4.1 million.
4. The figures on welfare recipients exclude children and therefore differ from the more familiar totals reported by Health and Welfare Canada.
5. See, for example, the National Council of Welfare report Women and Poverty Revisited.
6. "Unattached individuals" are people living alone or in households where they are not related to other household members. Some, but not all unattached individuals are "single people" in the popular sense of the term. Others are divorced or separated people or widows or widowers living on their own.
7. Sickness benefits are available for up to 15 weeks. Maternity benefits refer to the 15 weeks of benefits available only to natural mothers. Parental benefits last for up to ten weeks and can be claimed by both natural and adoptive parents while they are caring for a newborn or adopted child. Parental benefits can be claimed by mothers or fathers, or split between the spouses if both parents are eligible.
8. Information for this section was taken from brochures on unemployment insurance distributed by Employment and Immigration Canada.
9. The National Council of Welfare uses the low income cut-offs of Statistics Canada (1986 base) as its measure of poverty.

10. For details of liquid asset exemption levels and needs testing, see the National Council of Welfare report Welfare Incomes 1992.
11. The single employable person used as an example in this chapter is roughly the same as the unattached individual used as an example in the last chapter. Definitions of employability for the purpose of welfare entitlements differ from province to province.
12. Earning exemptions for all provinces and territories are given in Welfare Incomes 1992.
13. For a fuller description of the Parental Wage Assistance Program and family benefit programs in Manitoba and Saskatchewan, see the chapter on Children's Financial Benefit Programs in Health and Welfare Canada's Inventory of Income Security Programs in Canada.
14. The estimates for Quebec and Manitoba came from Health and Welfare Canada, Evaluation of the Canada Assistance Plan (CAP) (Ottawa: January, 1991), page III-43. The estimate for Ontario comes from Ernie S. Lightman, "Work Incentives and Disincentives in Ontario," a 1987 report to the Ontario Social Assistance Review Committee.
15. Gunderson, Morley, and Leon Muszynski with Jennifer Keck, Women and Labour Market Poverty (Ottawa: Canadian Advisory Council on the Status of Women, 1990), page 29.
16. Information on income limits was collected from provincial officials by the National Council of Welfare.
17. Information for this section came from Employment and Immigration Canada, Evaluation of Employability Initiatives for Social Assistance Recipients (SARS) in CJS (Ottawa: March 1993).
18. "Valcourt launches \$50 million study to promote self-sufficiency among individuals on social assistance." (News release issued May 8, 1992) Background information on the self-sufficiency project came from Employment and Immigration Canada.
19. Economic Council of Canada, "Good Jobs, Bad Jobs: Employment in the Service Sector," (Ottawa, 1990).

## **APPENDIX A**

### **WELFARE VERSUS WORK AT THE MINIMUM WAGE BY HOUSEHOLD TYPE AND PROVINCE, 1992**

The following pages give the detailed calculations that were used to generate Table 11 on page 34 of this report. There is one page for each province and Yukon that contains comparisons of welfare versus work at the minimum wage for five household types: a single employable person, a single person with a disability, a single parent with a child aged two, a one-earner couple with children aged ten and 15, and a two-earner couple with children aged ten and 15.

In the top part of each table are the calculations starting with gross earnings from a full-time minimum-wage job and ending with take-home pay. Federal income taxes, including the federal individual surtax, were calculated using the minimum number of tax breaks available to each of the household types. In all cases, tax credits were allowed for Canada or Quebec Pension Plan contributions and unemployment insurance premiums. For the single employable person and the person with a disability, the only other allowance was the personal credit. The single-parent family was allowed a personal credit and an equivalent-to-married credit for the child. In most cases, that was enough to reduce the tax bill to zero. The one-earner couple was allowed a personal credit, a married credit for the dependent spouse and two credits for the dependent children. That also was enough to wipe out income taxes in most provinces. Taxes for the two-earner couple were calculated individually for each spouse. The spouse who received the family allowance payment was allowed a personal credit and credits for two dependent children. The other spouse was allowed a personal credit.

To keep the calculations reasonably simple, the federal refundable GST tax credit and federal refundable child tax credit were not included. Both these benefits were not taxable and were available to low-income households regardless of the source of their income. On the other hand, we did include taxable federal family allowance benefits and special provincial benefits for parents in Quebec, Manitoba and Saskatchewan. The Quebec program is especially relevant to the questions of incentives and disincentives to work.



The situation changed slightly in 1993 with the change in federal child benefits. Family allowances and the child tax credit were replaced with a child tax benefit. The new benefit included a supplement of up to \$500 a family for low-income families who get most of their income from earnings.

Provincial income taxes were calculated using the tax forms for each province and Yukon. Tax reductions in several provinces that were aimed exclusively at low-income people who pay taxes were included. Tax credits to offset housing costs or rises in the cost of living were not included, because they were available to people whether they were wage-earners or welfare recipients.

The middle part of each table begins with basic welfare assistance and additional welfare benefits routinely provided by provincial and territorial governments. All this information was previously published in Table 2 of Welfare Incomes 1992. Exempt earnings were included only up to that point where additional earnings would lead to a reduction in welfare benefits. For the purposes of the calculations, the disabled person and the single parent with a two-year-old child were considered to be unemployable, and the rest of the households were considered employable.

The bottom portion of each table compares take-home pay and net welfare income for each of the five household types. The incentives and disincentives that appear on the bottom line of each table also appear in Table 11.

The figures in brackets are disincentives, and the figures without brackets are incentives. Because of rounding, some subtotals and totals may appear to be off by one or two dollars.

# NEWFOUNDLAND

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	9,880	9,880	9,880	9,880	19,760
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	160	160	160	160	320
Unemployment Insurance Premiums	296	296	296	296	592
Federal Income Tax	527	527	0	0	1,055
Provincial Income Tax	<u>324</u>	<u>324</u>	<u>0</u>	<u>0</u>	<u>650</u>
Take-Home Pay	8,571	8,571	9,842	10,260	17,978
Welfare Income	4,301	8,273	11,198	12,119	12,119
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>0</u>	<u>1,140</u>	<u>360</u>	<u>0</u>	<u>0</u>
Net Welfare Income	4,301	9,413	11,977	12,956	12,956
Take-Home Pay	8,571	8,571	9,842	10,260	17,978
Net Welfare Income	<u>4,301</u>	<u>9,413</u>	<u>11,977</u>	<u>12,956</u>	<u>12,956</u>
Incentive to Work	4,270	(842)	(2,135)	(2,696)	5,022

No exempt earnings were allowed for the single employable welfare recipient and the two couples, because even the first dollar of earnings leads to a 50-cent reduction in welfare entitlements.

PRINCE EDWARD ISLAND

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	9,880	9,880	9,880	9,880	19,760
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	160	160	160	160	320
Unemployment Insurance Premiums	296	296	296	296	592
Federal Income Tax	527	527	0	0	1,055
Provincial Income Tax	<u>299</u>	<u>299</u>	<u>0</u>	<u>0</u>	<u>600</u>
Take-Home Pay	8,597	8,597	9,842	10,260	18,028
Welfare Income	7,872	8,964	10,920	16,303	16,303
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>600</u>	<u>600</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>
Net Welfare Income	8,472	9,564	12,539	18,340	18,340
Take-Home Pay	8,597	8,597	9,842	10,260	18,028
Net Welfare Income	<u>8,472</u>	<u>9,564</u>	<u>12,539</u>	<u>18,340</u>	<u>18,340</u>
Incentive to Work	125	(967)	(2,697)	(8,080)	(312)



# NOVA SCOTIA

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	10,400	10,400	10,400	10,400	20,800
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	173	173	173	173	346
Unemployment Insurance Premiums	312	312	312	312	624
Federal Income Tax	614	614	0	0	1,230
Provincial Income Tax	<u>349</u>	<u>349</u>	<u>0</u>	<u>0</u>	<u>700</u>
Take-Home Pay	8,952	8,952	10,334	10,752	18,738
Welfare Income	5,904	8,400	10,368	12,432	12,432
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>600</u>	<u>2,100</u>	<u>2,400</u>	<u>1,200</u>	<u>1,200</u>
Net Welfare Income	6,504	10,500	13,187	14,469	14,469
Take-Home Pay	8,952	8,952	10,334	10,752	18,738
Net Welfare Income	<u>6,504</u>	<u>10,500</u>	<u>13,187</u>	<u>14,469</u>	<u>14,469</u>
Incentive to Work	2,448	(1,548)	(2,853)	(3,717)	4,269

Nova Scotia has a two-tier welfare system. The single employable person and the two couples were assumed to be on Halifax municipal welfare, while the others were on provincial welfare.

# NEW BRUNSWICK

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	10,400	10,400	10,400	10,400	20,800
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	173	173	173	173	346
Unemployment Insurance Premiums	312	312	312	312	624
Federal Income Tax	614	614	0	0	1,230
Provincial Income Tax	<u>352</u>	<u>352</u>	<u>0</u>	<u>0</u>	<u>705</u>
Take-Home Pay	8,949	8,949	10,334	10,752	18,732
Welfare Income	3,048	7,920	8,304	9,318	9,318
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>2,300</u>	<u>1,800</u>	<u>2,400</u>	<u>3,600</u>	<u>3,600</u>
Net Welfare Income	5,348	9,720	11,123	13,755	13,755
Take-Home Pay	8,949	8,949	10,334	10,752	18,732
Net Welfare Income	<u>5,348</u>	<u>9,720</u>	<u>11,123</u>	<u>13,755</u>	<u>13,755</u>
Incentive to Work	3,601	(771)	(789)	(3,003)	4,977

# QUEBEC

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	11,622	11,622	11,622	11,622	23,244
Plus:					
Family Allowances	0	0	268	769	769
Parental Wage Assistance Program	0	0	2,870	3,194	1,222
Minus:					
Quebec Pension Plan Contributions	202	202	202	202	404
Unemployment Insurance Premiums	349	349	349	349	698
Federal Income Tax	690	690	0	0	1,371
Provincial Income Tax	<u>398</u>	<u>398</u>	<u>0</u>	<u>0</u>	<u>0</u>
Take-Home Pay	9,983	9,983	14,209	15,034	22,762
Welfare Income	5,844	7,656	10,188	12,499	12,499
Plus:					
Family Allowances	0	0	268	769	769
Exempt Earnings	<u>1,932</u>	<u>1,200</u>	<u>960</u>	<u>2,340</u>	<u>2,340</u>
Net Welfare Income	7,776	8,856	11,416	15,608	15,608
Take-Home Pay	9,983	9,983	14,209	15,034	22,762
Net Welfare Income	<u>7,776</u>	<u>8,856</u>	<u>11,416</u>	<u>15,608</u>	<u>15,608</u>
Incentive to Work	2,207	1,127	2,793	(574)	7,154

Federal family allowances are paid under a different formula than in other parts of Canada. Parental Wage Assistance Program benefits for working parents include only the work income supplement. Under certain conditions, families also qualify for benefits to defray child care expenses and housing costs. Among welfare households, the disabled person was classified under the Financial Support Program. The single-parent family was classified as "not available" under the Work and Employment Incentives Program, and the others were classified as "not participating."



# ONTARIO

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	12,601	12,601	12,601	12,601	25,202
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	226	226	226	226	452
Unemployment Insurance Premiums	378	378	378	378	756
Federal Income Tax	984	984	103	29	1,969
Provincial Income Tax	<u>513</u>	<u>513</u>	<u>0</u>	<u>0</u>	<u>513</u>
Take-Home Pay	10,500	10,500	12,314	12,805	22,350
Welfare Income	7,812	10,992	14,480	18,978	18,978
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>900</u>	<u>1,920</u>	<u>2,100</u>	<u>1,800</u>	<u>1,800</u>
Net Welfare Income	8,712	12,912	16,999	21,615	21,615
Take-Home Pay	10,500	10,500	12,314	12,805	22,350
Net Welfare Income	<u>8,712</u>	<u>12,912</u>	<u>16,999</u>	<u>21,615</u>	<u>21,615</u>
Incentive to Work	1,788	(2,412)	(4,685)	(8,810)	735

Ontario has a two-tier welfare system. The single employable person and the two couples were assumed to be on Toronto municipal welfare, and the others were on provincial welfare.

# MANITOBA

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	10,400	10,400	10,400	10,400	20,800
Plus:					
Family Allowances	0	0	419	837	837
Child Related Income Support Program	0	0	360	720	0
Minus:					
Canada Pension Plan Contributions	173	173	173	173	346
Unemployment Insurance Premiums	312	312	312	312	624
Federal Income Tax	614	614	0	0	1,230
Provincial Income Tax	<u>272</u>	<u>272</u>	<u>0</u>	<u>0</u>	<u>272</u>
Take-Home Pay	9,029	9,029	10,694	11,472	19,166
Welfare Income	6,191	7,951	9,721	16,802	16,802
Plus:					
Family Allowances	0	0	419	837	837
Exempt Earnings	<u>2,880</u>	<u>600</u>	<u>600</u>	<u>2,880</u>	<u>2,880</u>
Net Welfare Income	9,071	8,551	10,740	20,519	20,519
Take-Home Pay	9,029	9,029	10,694	11,472	19,166
Net Welfare Income	<u>9,071</u>	<u>8,551</u>	<u>10,740</u>	<u>20,519</u>	<u>20,519</u>
Incentive to Work	(42)	478	(46)	(9,047)	(1,353)

Manitoba has a two-tier welfare system. The single employable person and the two couples were assumed to be on Winnipeg municipal welfare. The high level of exempt earnings is due to the city's Wage Supplementation Program. The others were on provincial welfare. Child Related Income Support Program benefits are listed separately for minimum wage families, but are included in welfare income for families on welfare.

# SASKATCHEWAN

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	10,461	10,461	10,461	10,461	20,922
Plus:					
Family Allowances	0	0	419	837	837
Family Income Plan	0	0	320	1520	0
Minus:					
Canada Pension Plan Contributions	174	174	174	174	348
Unemployment Insurance Premiums	314	314	314	314	628
Federal Income Tax	625	625	0	0	1,250
Provincial Income Tax	<u>346</u>	<u>346</u>	<u>0</u>	<u>0</u>	<u>346</u>
Take-Home Pay	9,002	9,002	10,712	12,330	19,187
Welfare Income	5,375	8,210	10,311	14,683	14,683
Plus:					
Family Allowances	0	0	419	837	837
Exempt Earnings	<u>300</u>	<u>1,200</u>	<u>600</u>	<u>1,200</u>	<u>1,200</u>
Net Welfare Income	5,675	9,410	11,330	16,720	16,720
Take-Home Pay	9,002	9,002	10,712	12,330	19,187
Net Welfare Income	<u>5,675</u>	<u>9,410</u>	<u>11,330</u>	<u>16,720</u>	<u>16,720</u>
Incentive to Work	3,327	(408)	(618)	(4,390)	2,467

Family Income Plan benefits are listed separately for minimum wage families but are included in welfare income for families on welfare.



# ALBERTA

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	10,140	10,140	10,140	10,140	20,280
Plus: Family Allowances	0	0	331	929	929
Minus: Canada Pension Plan Contributions	167	167	167	167	334
Unemployment Insurance Premiums	304	304	304	304	608
Federal Income Tax	571	571	0	0	1,158
Provincial Income Tax	19	19	0	0	56
Take-Home Pay	9,079	9,079	10,000	10,598	19,054
Welfare Income	5,640	6,660	10,104	15,696	15,696
Plus: Family Allowances	0	0	331	929	929
Exempt Earnings	1,380	1,380	1,380	1,380	1,380
Net Welfare Income	7,020	8,040	11,815	18,005	18,005
Take-Home Pay	9,079	9,079	10,000	10,598	19,054
Net Welfare Income	7,020	8,040	11,815	18,005	18,005
Incentive to Work	2,059	1,039	(1,815)	(7,407)	1,049

Federal family allowances in Alberta are paid under a different formula than in other parts of Canada.

# BRITISH COLUMBIA

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	11,353	11,353	11,353	11,353	22,706
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	196	196	196	196	392
Unemployment Insurance Premiums	341	341	341	341	682
Federal Income Tax	774	774	0	0	1,549
Provincial Income Tax	<u>385</u>	<u>385</u>	<u>0</u>	<u>0</u>	<u>770</u>
Take-Home Pay	9,657	9,657	11,236	11,654	20,151
Welfare Income	6,308	8,856	11,373	14,389	14,389
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>1,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Net Welfare Income	7,308	10,856	13,792	17,226	17,226
Take-Home Pay	9,657	9,657	11,236	11,654	20,151
Net Welfare Income	<u>7,308</u>	<u>10,856</u>	<u>13,792</u>	<u>17,226</u>	<u>17,226</u>
Incentive to Work	2,349	(1,199)	(2,556)	(5,572)	2,925

# YUKON

	Single Employable Person	Disabled Person	Single Parent, One Child	One-Earner Couple, Two Children	Two-Earner Couple, Two Children
Gross Earnings from Minimum-Wage Job	12,979	12,979	12,979	12,979	25,958
Plus: Family Allowances	0	0	419	837	837
Minus: Canada Pension Plan Contributions	235	235	235	235	470
Unemployment Insurance Premiums	389	389	389	389	778
Federal Income Tax	1,048	1,048	166	93	2,096
Provincial Income Tax	<u>451</u>	<u>451</u>	<u>72</u>	<u>40</u>	<u>902</u>
Take-Home Pay	10,856	10,856	12,536	13,059	22,548
Welfare Income	7,895	8,735	13,112	19,765	19,765
Plus: Family Allowances	0	0	419	837	837
Exempt Earnings	<u>60</u>	<u>300</u>	<u>120</u>	<u>180</u>	<u>180</u>
Net Welfare Income	7,955	9,035	13,651	20,782	20,782
Take-Home Pay	10,856	10,856	12,536	13,059	22,548
Net Welfare Income	<u>7,955</u>	<u>9,035</u>	<u>13,651</u>	<u>20,782</u>	<u>20,782</u>
Incentive to Work	2,901	1,821	(1,115)	(7,723)	1,766



## APPENDIX B

### THE DECLINE IN THE REAL VALUE OF THE MINIMUM WAGE

Minimum wage income in the table that follows is the gross amount an adult could earn working 40 hours a week for 52 weeks. The poverty lines refer to the Statistics Canada's low income cut-offs (1986 base) for a single person in the largest city in each province. The lines for 1976 were calculated by the National Council of Welfare. The lines used for workers under federal government jurisdiction were the lines for a city of 500,000 or more.

<b>MINIMUM WAGE INCOME AND THE POVERTY LINE FOR A SINGLE PERSON, 1976 AND 1992</b>				
	1976 Minimum Wage Income	Income as % of Poverty Line	1992 Minimum Wage Income	Income as % of Poverty Line
Federal Government	\$5,936	106%	\$8,320	55%
Newfoundland	\$5,200	105%	\$9,880	74%
Prince Edward Island	\$4,992	103%	\$9,880	76%
Nova Scotia	\$5,200	105%	\$10,400	78%
New Brunswick	\$5,184	105%	\$10,400	78%
Quebec	\$5,897	105%	\$11,622	77%
Ontario	\$5,412	96%	\$12,601	83%
Manitoba	\$5,716	102%	\$10,400	69%
Saskatchewan	\$5,824	118%	\$10,461	78%
Alberta	\$5,640	100%	\$10,140	67%
British Columbia	\$6,240	111%	\$11,353	75%

A single person working full time ended up with income above the poverty line in most provinces in 1976. By 1992, a single person working full time was living far below the poverty line.

Another way of looking at the real value of the minimum wage over time is to express all minimum wage incomes in 1992 dollars to factor out the effects of inflation. In the table that follows, the 1992 incomes are the same as those on the last page, while the 1976 incomes are shown in 1992 dollars. The decline in the purchasing power of the minimum wage is shown in the right-hand column.

<b>MINIMUM WAGE INCOMES IN CONSTANT 1992 DOLLARS, 1976 AND 1992</b>			
	1976 Minimum Wage Income	1992 Minimum Wage Income	Percentage Change in Value of Minimum Wage
Federal Government	\$16,008	\$8,320	-48.0%
Newfoundland	\$14,024	\$9,880	-29.5%
Prince Edward Island	\$13,463	\$9,880	-26.6%
Nova Scotia	\$14,024	\$10,400	-25.8%
New Brunswick	\$13,980	\$10,400	-25.6%
Quebec	\$15,903	\$11,622	-26.9%
Ontario	\$14,595	\$12,601	-13.7%
Manitoba	\$15,415	\$10,400	-32.5%
Saskatchewan	\$15,706	\$10,461	-33.4%
Alberta	\$15,210	\$10,140	-33.3%
British Columbia	\$16,828	\$11,353	-32.5%

## APPENDIX C

### BARRIERS TO EMPLOYMENT AMONG PEOPLE WITH DISABILITIES, 1991

The table below was compiled from data in Statistics Canada's 1991 Health and Activity Limitation Survey and published under the title Adults with Disabilities: Their Employment and Education Characteristics. The survey reported a total of nearly 1,005,000 persons ages 15 through 64 who were not in the labour force. About 59 percent of these people said they were completely prevented from working, and 20 percent said they were limited in the amount of work they could do. The table shows the number of people who reported each type of barrier. Some people reported more than one barrier.

<b><u>BARRIERS TO EMPLOYMENT AMONG PEOPLE WITH DISABILITIES</u></b>		
Barriers Reported	Persons Reporting	Percentage of Total Responses
Would lose some or all of current income if they went to work	198,000	14.8%
Their training is not adequate	153,000	11.4%
No jobs are available	139,000	10.4%
Would lose some or all of additional supports if they worked	120,000	8.9%
Family responsibilities prevent them	93,000	6.9%
Have been a victim of discrimination	68,000	5.1%
Accessible transportation is not available	68,000	5.0%
Information about jobs is not accessible	54,000	4.0%
Family or friends have discouraged them from going to work	53,000	3.9%
Worry about being isolated by other workers	44,000	3.3%
Other reasons or not stated	353,000	26.3%
Total responses	1,344,000	100.0%





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The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, medicare, poverty lines and poverty statistics, the retirement income system, the aged, tax reform, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, poverty coverage in the press and welfare reform.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, Pièce 1876, Immeuble Jeanne Mance, Ottawa K1A 0K9.











